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NATIONAL TRADE POLICY AGENDA

HEARINGS

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

FEBRUARY 28; APRIL 26, 1989

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NATIONAL TRADE POLICY AGENDA

TUESDAY, FEBRUARY 28, 1989

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press releases announcing the hearings follow:]

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 9, 1989

SUBCOMMITTE ON TRADE #2
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
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THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A PUBLIC HEARING ON THE NATIONAL TRADE POLICY AGENDA

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a public hearing on the national trade policy agenda for 1989. The hearing will be held on Tuesday, February 28, 1989, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m. The Honorable Carla A. Hills, U.S. Trade Representative, will be the sole witness.

The purpose of this hearing is to receive the Administration's views and intentions with respect to the trade policy objectives and priorities of the United States in 1989, actions proposed or anticipated to be undertaken during the year to achieve these objectives and priorities, and any proposed legislation necessary or appropriate to achieve these goals. The Omnibus Trade and Competitiveness Act of 1988 requires the President to submit the first annual report on the national trade policy agenda to the Congress by March 1.

In announcing the hearing, Chairman Gibbons stated, "This is the first opportunity the Subcommittee has had to hear from President Bush's new U.S. Trade Representative Carla Hills. It is also the day before the new Administration will submit its trade policy agenda under the new trade law. We look forward with great anticipation to Ambassador Hills' testimony, and we hope that this hearing will help to get her off to a strong start as the President's chief trade official."

* * * * * * * * * *

FOR IMMEDIATE RELEASE
THURSDAY, APRIL 13, 1989

SUBCOMMITTEE ON TRADE #9
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
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THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A FURTHER PUBLIC HEARING ON THE NATIONAL TRADE POLICY AGENDA

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will hold a further public hearing on the national trade policy agenda. The hearing will be held on Wednesday, April 26, 1989, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m. The Honorable Robert Mosbacher, Secretary of Commerce, will be the sole witness.

The purpose of this hearing will be to receive testimony from the Secretary on the activities of the Department of Commerce in the development and implementation of U.S. trade policy, including administration of the antidumping and countervailing duty laws and other trade statutes and programs under the Department's responsibility, support of the Uruguay Round of GATT Multilateral Trade Negotiations, monitoring of the European Community's 1992 plan for a single market, and efforts to improve U.S. industrial competitiveness and to promote market access for U.S. exports.

This hearing is a continuation of the Subcommittee's hearing on the national trade policy agenda held on February 28, 1989, with the Honorable Carla A. Hills, U.S. Trade Representative, as the sole witness.

* * * * * * * * * *

Chairman **Gibbons**. Good morning, ladies and gentlemen.

The meeting will come to order in the Subcommittee on Trade of the Ways and Means Committee.

Before I welcome you, Ms. Hills, I want to welcome my big chairman here. He has been out voting. As they say in my town "vote early and often." I am sure that is not true in Chicago. We are glad to have you here, Rosty.

Ms. Hills, we welcome you. You have one of the most important offices in the hierarchy of offices in the U.S. Government. Ever since 1963, when your office was created by this committee and this Congress, we have looked upon it as being not only a super Cabinet-level office in the Presidency, but our representative in the President's trade decisionmaking process.

As you know, for better or for worse, the Founders of this country placed the decisions about trade in the hands of the Congress. Perhaps an awkward place to put it, a very unusual place to put it, but under article I, section 8 of the Constitution, the Congress is to control the external trade of the United States. Of course, it has to be done in cooperation with the President because that is the way we make law.

But it is one of the specific duties in Congress. And, from years of experience, we have found that it is necessary and desirable to delegate to the President power to carry out the responsibilities of Congress, and that is why you are so unique in all the Cabinet setup and in all of the organization of the President's hierarchy concerning him and his decisions in this unique responsibility between Congress and the President on matters of foreign trade.

So, we created your office in 1963. We expanded it in 1974. We expanded it again in 1979. We expanded it again in this decade, and we realize that you are not one of those who are blessed or cursed with a large staff. You are expected to be in the vernacular, a lean-and-mean organization. And yet, we are not sure that that is the final decision to be made in this whole matter of delegating trade powers from the Congress to the Presidency.

But you are our finest and best hope, and on you we heap the responsibility of carrying this burden for Congress and for the President, and for coordinating it with other Cabinet members.

The 1988 Omnibus Trade Act gave you a lot more duties and responsibilities and powers. The ability of you to carry out these powers not only will tax your personal ability, but will also tax your ability to get along with your Cabinet members, and with the President.

But you are our voice, our ears, our liaison, and we want to work with you to coordinate this very important responsibility of our Government.

That is why we have asked you to be the first and the only witness today as we go into the discussion of trade policy for the future. Before I ask you to testify, and I appreciated your sending us your statement in advance, I would ask if other members of the committee here have statements they would like to make?

Chairman **Rostenkowski**. I would like to associate myself certainly with the remarks of my colleague and my chairman, Mr. Gibbons. I think you know very well, Carla, how I view the importance of the Trade Representative.

Your predecessor was somewhat embarrassed about all the authority I wanted to invest in him. I think that that still holds true. I think that trade is going to be our future, and it is not just limited to one side of the ocean, but to both oceans. I think the importance of the Pacific was evidenced by our President's visit to our trading partner's areas, and the possibility of developing larger trade relations with China.

I think that certainly the higher visibility that I expect this administration to give our Trade Representative and trade area is going to be fruitful, and if there is any way that, as chairman of the entire committee—and I am sure that Mr. Gibbons agrees with this—if there is any way that we can be of help to make your job easier, and to, if necessary, give you more tools to work with, I think that the Ways and Means Committee, and certainly the Subcommittee on Trade is willing and available to help.

I just join with my chairman, Mr. Gibbons, in welcoming you, and I certainly look forward to a long association in establishing solid trade policy.

Ambassador **HILLS**. Thank you.

Chairman **GIBBONS**. Mr. Schulze.

Mr. **SCHULZE**. Thank you, Mr. Chairman.

I, too, would like to associate myself with the remarks of both chairmen, and join them in welcoming Ambassador Hills in what is her first official appearance before the Trade Subcommittee.

Pursuant to the newly enacted Omnibus Trade and Competitiveness Act of 1988, today we shall discuss a national trade policy for the coming year, and hopefully to generate further discussion on where we want to be in the years beyond. Where we want to be and how we expect to get there.

Clearly our discussions this morning centered on the Uruguay round, Europe in 1992, the malignancy of trade, distorted subsidies, and potential future bilateral FTA's designed to make us more competitive in what is a merciless and unforgiving global economic order. And indeed, addressing them sensibly and with our eyes wide open should help us to do just that.

I would issue one caveat, however. As we explore these issues as part of our efforts to shore up our competitiveness, we must pull ourselves into believing that success in these critical areas will naturally yield the best equipped America.

Before we can produce an America whose long-term prospects are something to write home about we need to recognize additional broader forces which need to be developed, debated, and ultimately acted upon.

First is the notion of a U.S. Department of Trade. As we know, official statements on trade policy come from so many Federal departments and agencies that a coordinated policy is the U.S. Government's version of the impossible dream.

Unfortunately, while giving our negotiators nightmares, this lack of unity has become a dream come true for many of our trading partners who have become quite adept at actually playing off one Cabinet Secretary against another until such countries negotiating objectives are achieved. The Toshiba diversion is a glaring case in point.

Through enactment of transfer of authority in portions of the trade bill, we have taken a significant step in the right direction. However, we must continue our march down that same path until we can send a definitive signal that we are obsessed with the pursuit of a streamlined Government trade establishment, and therefore a more unified voice on trade policy.

And finally, we must acknowledge the need to join trade and tax policy in a holy matrimony by enacting a consumption base tax, such as of that, while simultaneously reducing or ultimately eliminating corporate income taxes. The consumption tax which incorporates the notion of border tax adjustments would make new U.S. exports more attractive in foreign markets while raising corporate income tax would have just the opposite effect.

The tax on consumption would also lead to decreased consumption in the United States and accordingly a more favorable balance of trade position.

Last, by dedicating revenues generated by a consumption type tax to deficit and debt reduction, by eliminating all taxation and spending to a percentage of GNP, we could take a giant step toward elimination of our trade and budget deficits as well as paying off the national debt.

Though we must return to the very important topic of a national trade policy agenda for 1989, I urge the Bush administration and my colleagues to debate these crucial contributing factors. This great Nation of ours deserves nothing less. And I look forward to the Ambassador's testimony today.

[By subsequent unanimous consent, Mr. Pickle's opening statement was placed in the record at this point:]

STATEMENT OF HON. J.J. PICKLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, I am delighted to join my colleagues in welcoming the U.S. Trade Representative, Carla Hills. I regret that I am unable to participate in the hearing this morning due to prior legislative commitments, however, I did want to take time to greet you.

I am happy to note that you come before the Committee armed with tough trade statutes to support your stated tough resolve to improve our trade posture. I want you to know of my strong support for market-opening initiatives.

I took great interest in your confirmation hearings for signals of what Congress can expect from you in terms of trade policy. It was good to hear you speak strongly in support of "enforcement" of U.S. trade laws.

Congress passed the trade bill last year in response to our worsening trade deficit. I hope this new law will help correct the imbalance, but our trade laws must be enforced. If the laws are not tough enough, then you should advise us what we should do.

We are still seeking progress on the semiconductor agreement with Japan, and I look forward to working with you to impress upon our trading partner the importance of fair trade policies in this high-tech area. Your comments to date show a willingness to pursue this issue and other pressing trade matters.

I welcome your strong leadership in this important policy area.

Chairman GIBBONS. Are there others who have short statements they would like to make?

Mr. Jenkins.

Mr. JENKINS. Thank you, Mr. Chairman.

I want to join with you and Chairman Rostenkowski and other members of the committee in welcoming our new Trade Representative to the committee.

Let me simply say that we have a grand opportunity to commence this administration with a joint effort of cooperation between this committee and the Congress and your office because we are all on the same side, and we ought to be able to reflect that in our decisions not only to open markets, but to make expeditious handling of those cases that are filed whether they be 301 cases or others so that we can truly join together and try to reverse our present position in the world market place.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you.

Are there other statements?

Ms. Hills, you may proceed as you wish.

STATEMENT OF HON. CARLA A. HILLS, U.S. TRADE REPRESENTATIVE

Ambassador HILLS. Thank you very much, Mr Chairman, and other members of the committee. I am very pleased to be here today to talk about the national trade agenda.

As you mentioned, we delivered the written statement of my testimony yesterday, and it may save time if I just summarize a few of the points.

Chairman GIBBONS. At this point without objection your entire statement will be placed in the record.

Ambassador HILLS. Thank you, Mr. Chairman.

As you know, in preparing this national trade policy agenda, we sought the advice of the Congress, this committee, and we were grateful for your response, as well as from the other executive agencies and our private sector adviser committees.

We face huge challenges. The global deficit remains too high. The multilateral trading system is woefully in need of modernization. Key areas of economic activity are not covered.

This morning, I would like to focus my remarks on three areas. The Uruguay round negotiations, our approach in implementing the 1988 Omnibus Trade Act, and issues involved in achieving a coordinated approach in implementing our trade agenda.

The Uruguay round is clearly the top priority of our trade agenda. We want to achieve multilateral agricultural policy reform; to expand and strengthen the GATT by adding disciplines covering intellectual property, and trade related investment services, which are so important to our economy; to reduce foreign barriers to U.S. exports of goods and services; and to strengthen and reinforce the credibility of our trading system by addressing the growing problem of integrating lesser developed countries into the trading system.

Last December's ministerial meeting in Montreal resulted in agreements in how to proceed on 11 of the 15 Uruguay round negotiating groups. For example, with respect to services, the midterm review broke a procedural log jam on how to began negotiating sectoral coverage on a framework agreement.

The institutional functioning of GATT was strengthened by some procedural improvements in the dispute settlement mechanism, and enhanced surveillance of trade policies of all of the contracting parties. A first step was taken to better cooperation between the GATT and international financial institutions.

We also agreed on a negotiating framework that will enable us to negotiate marketing access using a request offer method which would go far in permitting our exports to enter other markets.

Our immediate task, however, is to resolve the four negotiating frameworks not agreed to in Montreal: Agriculture, intellectual property, safeguards, and textiles.

In Montreal, it was agreed that these issues should be resolved by April 5 when the Trade Negotiating Committee will meet again in Geneva. In agriculture, the United States seeks agreement on negotiating a framework that will lead to fundamental reform by dismantling all trade distorting measures. Our long-term goal is to agree on a time when we would no longer have trade distorting measures in agriculture.

In Montreal, the European Community were not prepared to accept such a framework. Thus, we agreed to give ourselves another few months to reach agreement.

The United States also fought for a negotiating framework covering for our comprehensive GATT agreement on trade related intellectual property. Here we want clear standards, a commitment to enforcement, GATT principles of national treatment and transparency, and a dispute settlement mechanism.

Two other outstanding issues are textiles and safeguards. I believe we will be able to agree on a negotiating framework in each of these two areas.

The 11 frameworks agreed to in Montreal are on hold pending agreement on the four nonagreed areas. GATT Director General Dunkel has been working in Geneva with delegations to break the impasse in these four remaining areas. We have had teams in Geneva working to resolve the impasse in agriculture.

Secretary Yeutter and I met with out counterparts from the European Community just 10 days ago, and we talked about agriculture and the Uruguay round. We still do not have an agreement with the Euuropeans on the long-term goal, but we have hope, and Secretary Yeutter and I will travel to Brussels to resume these negotiations on March 10 and 11 with our European Community counterparts.

By the end of March I will have met or talked with most of the key players in the agricultural talks. And I do believe we will find a solution to the outstanding issues that will enable the round to go forward without having to give up our fundamental objectives.

Domestically, we are meeting with our advisers. Meetings are ongoing at all levels of the executive branch. My staff and I have been consulting regularly with Congress.

In addition to our multilateral negotiations we are also using bilateral initiatives in an effort to lower barriers to the export of U.S. goods and services. Three of our most important bilateral concerns for the coming year are the implementation of the recent United States-Israel and the United States-Canada free trade agreements, EC 1992, and our bilateral relationship with Japan. With respect to the free-trade agreements we will continue to work with Canada and Israel.

Earlier this month I accompanied President Bush to Ottawa where I had a good discussion with Minister Crosbie. We agreed to have the first meeting of the Canada Trade Commission on March 13. In addition to liberalizing trade between the United States and Canada, the free-trade agreement with Canada creates an important new institutional framework for resolving disputes and for containing negotiations on remaining bilateral trade issues.

As for the United States-Israel free trade agreement, we have had our implementing problems since 1985. We think we will be able to negotiate satisfactory resolutions to most of them.

With respect to the European Community 1992, we do want to be prepared to take advantage of significant new commercial opportunities for U.S. business, and to guard against initiatives which unfairly discriminate against U.S. exporters or investors. The U.S. Government has at its disposal a full range of U.S. trade policy instruments.

With respect to Japan, the enormous bilateral deficit in our trade with Japan is clearly a cause for concern. Last week we received an important report from the Japan task force from our Private Sector Advisory Committee on Trade Policy and Negotiations. This report provides an economic analysis of our trade relationship with Japan, and makes recommendations for improving that relationship.

We are reviewing this report carefully, and it comes at an important time when we are assessing our trade policy with all of our major trading partners in light of the 1988 Omnibus Trade Act.

The Trade Policy Review Group will review our trade policy with respect to Japan using the report and consulting with our advisors regarding our other trade partners in the Pacific.

With respect to the Omnibus Trade and Competitiveness Act, our strategic goal is to open markets and create an ever-expanding trading system based upon equitable and enforceable rules.

At times we will be required to take unilateral action to protect our own economic interests and to try to pry open markets. One area where we are pursuing market openings is in telecommunications. Recently we submitted our report to you on that subject. And the USTR will continue its normal efforts to resolve trade policy problems across a range of sectors and with all of our trading partners.

But our greatest political attention for now will focus on section 301. I will be consulting regularly with you as we develop our priorities for negotiations in the super 301 process and the special 301 exercise for protection of intellectual property rights.

The super 301 process is an opportunity for us to determine where we will concentrate our efforts over the next 2 years. We are currently quantifying the benefits of eliminating various foreign trade barriers in order to select our priorities. We will focus on the areas where we have the greatest export potential.

The quantification process is not an easy one. The interagency 301 committee is analyzing trade barriers, and again we will be consulting closely with you as we approach the preparation of the final priorities list, which is due in May.

With respect to improving intellectual property protection, self-initiated 301 cases can be an effective means of gaining protection and enforcement of intellectual property rights. We will continue to pursue our bilateral efforts and our multilateral negotiations in the Uruguay round. On our regular 301 agenda we have a dozen active cases. In some, we are pursuing GATT dispute settlement, in others we are engaged in bilateral consultations, and in still others we are continuing to monitor the results of a settlement agreement or a responsive action taken as a result of 301.

We are using the leverage of 301 to bring down unfair practices in foreign markets.

Now, let me say a few words on the need to coordinate our policies and actions.

For example, section 301 can provide important leverage in pursuing our Uruguay round objectives. Again, our goal is to open foreign markets.

The broad choice in terms used at my confirmation hearing is when to use the crowbar and when to use the handshake. We cannot fall into the trap of suspending all actions against unfair trade practices on the ground that such actions would spoil the atmosphere for the Uruguay round. On the other hand, we will not achieve our objective of opening multilateral markets simply by closing our own markets in retaliation, and there will be tough choices.

A concrete example is the recent dispute concerning Brazil's refusal to provide patent protection for pharmaceutical and fine chemicals. After years of trying to resolve this issue bilaterally, we initiated countermeasures under section 301. We decided that the most effective step would be to impose restrictions on merchandising imports from Brazil. Now Brazil has challenged our action in the GATT contending that they are inconsistent with U.S. obligations under GATT.

Many of our trading partners have criticized us for raising tariffs which we agreed in GATT not to raise. But, we felt we had no choice but to put the world on notice that we will not rule out using trade restrictive measures in response to the theft of U.S. intellectual property.

These are the tough choices, and we intend to continue to consult with you on them.

Mr. Chairman, I am delighted to answer your questions.

[The statement and attachment of Ambassador Hills follows:]

STATEMENT OF
CARLA ANDERSON HILLS
UNITED STATES TRADE REPRESENTATIVE
BEFORE THE
SUBCOMMITTEE ON TRADE
OF THE
HOUSE COMMITTEE ON WAYS AND MEANS
FEBRUARY 28, 1989

Mr. Chairman and Members of the Committee, it is a pleasure to appear before you to discuss our national trade policy agenda for the coming year, which is required by the Omnibus Trade Act of 1988 to be submitted to the Congress by March 1. In preparing this agenda, we sought the advice of the Congress, the other executive agencies, and our private sector advisory committees. We will need a cooperative effort among Congress, the Administration and the private sector in developing and implementing a national agenda that promotes the welfare of the American people and our own competitiveness.

There is no question we face huge challenges in our trade policy. The global trade deficit, while down from its record highs, remains too high. The multilateral trading system is woefully in need of modernization: key areas of economic activity are covered inadequately or not at all. Too many countries maintain closed markets.

Our trade policy by itself can't solve all these problems. Much of the deficit stems from macro-economic factors. Knocking down foreign trade barriers will give us export opportunities, but we have to ensure that our products and services are competitive in order to capitalize on these opportunities. This will require us to manage our education, technology, defense, fiscal and monetary policies in a way that reinforces positively our trade policy.

Our national trade policy agenda this year is ambitious. I will not attempt in these remarks to cover all the items set out in our written report. Rather, I should like to highlight a few important themes, though I would be pleased to respond to questions on any aspect of the agenda.

I shall focus my remarks today on three areas:

- the Uruguay Round negotiations;
- our approach in enforcing and implementing the directives and authorities in the 1988 Omnibus Trade Act; and

- o issues involved in achieving a coordinated approach to implementing our agenda.

The Uruguay Round

The Uruguay Round is clearly the top priority on our trade agenda this year. Our general objectives in these negotiations are:

-- to achieve multilateral agricultural policy reform;

-- to expand and strengthen the GATT by adding disciplines on new issues such as intellectual property, trade-related investment, and services, which are so important to our economy;

-- to reduce foreign barriers to U.S. exports of goods and services; and,

-- to strengthen and reinforce the credibility of the trading system by addressing the growing problems of integrating developing countries into the trading system, subsidies, and improving the rules on safeguards, or import relief from fairly traded goods.

I intend to push our objectives vigorously in the face of what I expect will be some tough bargaining from other countries.

Much groundwork to begin substantive negotiations has been done. Last December's ministerial meeting at Montreal resulted in agreements on how to proceed in 11 of the 15 Uruguay Round negotiating groups. Those agreements met most of our objectives for the areas addressed. In particular, we made important progress on:

- o Services. The Mid-term Review results will accelerate the negotiation of a multilateral agreement on trade in services. This breaks a procedural logjam on how to begin negotiating sectoral coverage of a framework agreement. Key issues for negotiation are identified, including national treatment, transparency, non-discrimination/MFN, and market access, including establishment. 1989 will be a pivotal year for services negotiations -- work will intensify in order to reach agreement on a first draft of an agreement by the end of the year.

- o Institutional machinery. The functioning of the GATT was strengthened by some procedural improvements in the dispute settlement mechanism and by agreeing to enhanced surveillance of trade policies of all contracting parties. A first step was taken toward better cooperation between the GATT and international financial institutions -- by calling for a report on the subject prior to the conclusion of the negotiations.

- Market access. We agreed to a negotiating framework that enables us to negotiate market access using a request/offer method. This will afford a more integrated approach, to assure that once a tariff is reduced, a non-tariff barrier does not hinder our exports.

Our immediate task, however, is to resolve the negotiating frameworks left open at Montreal: agriculture, intellectual property, safeguards and textiles. In Montreal, it was agreed these issues should be resolved by April 5, when the Trade Negotiations Committee that supervises the negotiations will meet again in Geneva. Let me just outline the basic issues.

- The United States sought and seeks agreement in agriculture on a negotiating framework that will lead to fundamental reform -- by dismantling trade-distorting subsidies and protection.

- Because others in Montreal, particularly the EC, were not yet prepared to accept a framework that would lead us in this direction, and because we were unwilling to accept less, we agreed to give ourselves another few months to reach agreement.

- The United States, along with a number of supporters, fought for a negotiating framework for a comprehensive GATT agreement on trade-related intellectual property. We rejected suggestions that we settle for fuzzy, ambiguous solutions that would only serve to confuse these already complex negotiations.

- An ever increasing number of other countries share our goal of an intellectual property agreement that will include obligations on substantive standards; will include obligations on enforcement -- internally and at the border; will include provisions on national treatment and transparency, appropriately revised for intellectual property; and will include dispute settlement provisions.

- The other two outstanding issues from Montreal are not easy subjects: textiles and safeguards. Our target for April is to agree on the framework for the negotiations in the remainder of the Uruguay Round. While I expect the post-April negotiations to be arduous and challenging, I believe we will be able to agree to a negotiating framework in these two areas

> that doesn't prejudge the issues and the negotiations in the next 18 months.

The frameworks agreed to in Montreal are "on hold" pending agreement on the four non-agreed areas. While there have been no "formal" meetings of the negotiating groups in Geneva, all delegations agreed to abide by the deadlines in those Montreal frameworks. This is based on the assumption that we will resolve the differences in the four outstanding issues.

In addition, GATT Director General Dunkel has been working in Geneva with delegations to break the impasse in these four remaining areas. The process since Montreal in Geneva has moved forward in a constructive atmosphere but it is too early to assess the results. Obviously, a key difficulty is the continuing difference between the United States and the EC on agriculture.

When Secretary Yeutter and I met with our counterparts from the EC two weeks ago, we talked about agriculture and the Uruguay Round. The discussion was useful -- but we still have not been able to agree on the direction and destination of long-term multilateral reform in agriculture. We did agree that the stakes are too high and the Uruguay Round too important to let the Uruguay Round languish. Secretary Yeutter and I will travel to Brussels to resume these discussions on March 10 with our EC counterparts.

In the meantime, there will continue to be preparatory working level meetings. By the end of March I will have met or talked with most of the key players in the agriculture talks. I am not prepared to sacrifice fundamental substantive interests for the sake of allowing the round to proceed. However, I believe there is so much determination by almost all countries to succeed that we will find a solution to the outstanding issues that will enable the round to go forward without having to give up on our fundamental objectives.

Domestically, we are meeting with our advisors to develop and refine our positions, and review proposals from other countries. Meetings are ongoing at all levels within the Executive Branch. My staff has been consulting regularly with Congressional staff so that all of us will be ready to hit the ground running in the negotiations once April is behind us.

Bilateral Initiatives

This Administration is committed to lowering barriers to the export of U.S. goods and services. Beyond our multilateral efforts in the Uruguay Round we will pursue vigorously and responsibly the elimination of barriers by our trading partners through bilateral consultations and negotiations. These efforts will include negotiation of bilateral agreements to remove formal and informal barriers to the export of U.S. goods and services in key overseas markets. I would like to highlight for the Committee three of our most important bilateral concerns for the coming year: the implementation of our recent free trade agreements, EC 1992, and Japan.

-- Free-trade agreements. We will continue to implement effectively our free trade agreements with Canada and Israel, which reflect the special economic, trade and other relationships that the United States enjoys with those two countries.

Last month I accompanied President Bush to Ottawa where I had a good discussion with Minister Crosbie of the major issues on our bilateral agenda with Canada. Clearly, implementation of the Free Trade Agreement is our first priority with Canada. Minister Crosbie and I agreed to have the first meeting of the Trade Commission, which we head, on March 13. While we have a number of start-up issues to resolve in implementing this new Agreement, I believe we're off to a good start.

In addition to substantially liberalizing trade between the United States and Canada, the Free-Trade Agreement with Canada creates an important new institutional framework for resolution of disputes and for further negotiations on remaining bilateral trade issues. We intend to utilize these avenues opened by the FTA, in close consultation with the Congress and the private sector.

As for the U.S./Israel agreement, while we have had a series of implementation problems since 1985, we have been able to negotiate a satisfactory resolution to most of them. We will continue to work to ensure that this agreement is successfully implemented.

-- European Community - 1992. Another priority issue we're pursuing on the bilateral front is the "EC 1992" initiative. The European Community's push to complete the EC internal market by 1992 offers the prospect of significant new commercial opportunities for U.S. business in the Community if implemented in a non-discriminatory way.

However, in a number of areas, proposals to foster European integration could potentially prejudice legitimate American economic interests in the EC. To guard against these possible negative consequences, we will monitor closely initiatives in the Community and develop effective policy responses to those EC measures which unfairly discriminate against U.S. exporters or investors. In this exercise, the U.S. Government will have at its disposal the full range of U.S. trade policy instruments.

-- *Japan*. The enormous bilateral deficit in our trade with Japan is clearly a cause for concern. The Reagan Administration made progress in securing agreements with Japan to reduce formal trade barriers, but clearly much more is needed. I don't have easy answers, but I do believe the time is past for papered-over solutions that somehow never produce results. Last month I received an important report from the Japan Task Force of our private sector Advisory Committee for Trade Policy and Negotiations. The report provides an economic analysis of our trading relationship with Japan, and makes recommendations for improving that relationship. This report, which we are reviewing very carefully, comes at an important time when we are assessing our trade policy with all of our major trading partners in light of the 1988 Trade Act. I have requested the Trade Policy Review Group to review our trade policy with respect to Japan, based on this report and on consultations with our advisors regarding our other trading partners in the Pacific.

Use of the Omnibus Trade and Competitiveness Act

To achieve the objectives of our trade policy agenda we must make creative use of the range of tools provided in the Omnibus Trade and Competitiveness Act of 1988, and we must use all the rights and opportunities that accrue to us under international agreements to which the United States is a party. Our strategic goal is to open markets, not close them; to create an ever-expanding international trading system based on *equitable* and *enforceable* rules.

The negotiating authority in the 1988 Act will of course be vital in the Uruguay Round negotiations. We will also be pursuing market opening initiatives in *telecommunications*, a subject on which I recently submitted a report to you. And USTR will continue its normal efforts to resolve trade policy problems across the range of sectors and with all our trading partners.

But the greatest political attention for now will shift to section 301, as amended by the 1988 Act. I will be consulting with you as we develop our priorities for negotiations in the "Super 301" process, and the special 301 exercise for protection of intellectual property rights. We also will continue to pursue vigorously those investigations on our current 301 agenda -- both self-initiated and resulting from petitions from private parties.

- *"Super 301."* I view the Super 301 process as an excellent opportunity for us to determine where to concentrate our efforts over the next two years, and where to use section 301 in as effective a manner as possible. We are currently quantifying the benefits of eliminating various foreign trade barriers in order to select priorities; our focus will be on areas where we have the greatest export potential.

The quantification process is not an easy one, but we've marshalled the expertise of other agencies, and our private sector advisors, to accomplish this task. The interagency Section 301 Committee is beginning the necessary analysis of these trade barriers, and we will consult closely with you as we approach the task of preparing a final priorities list in May.

o "Special 301." I strongly support the high priority the Congress, the Reagan Administration, and the private sector attached to improving intellectual property protection. Self-initiated section 301 cases can be an effective means of gaining improved protection and enforcement of intellectual property rights. Section 301 cannot be our only tool, however, and we will continue to pursue on parallel tracks our bilateral efforts and multilateral negotiations in the Uruguay Round.

o Regular 301 Agenda. At present we have a dozen active 301 cases on the agenda. In some cases, we are still pursuing GATT dispute settlement; in others we are engaged in bilateral consultations; and in some we are continuing to monitor the results of a settlement agreement or of responsive action taken under section 301. In all these cases, it is my intention to use the leverage of section 301 to bring down foreign unfair practices. I would be happy to respond to your questions about particular cases. I have provided you with an updated Table of Cases that reflects their current status, and soon I will be submitting the semiannual section 301 report covering the second half of 1988.

Coordinating The Various Elements of Our Agenda:

In these remarks and in our written report, I have discussed under separate headings a number of issues. It is appropriate to add here a few comments on the need to coordinate our policies and actions to reinforce one another to the maximum extent possible. For example, the tools provided in section 301 can and should provide important leverage in pursuing our Uruguay Round objectives. Our goal in the Uruguay Round is not agreements for their own sake, but rather to open foreign markets and to enhance economic benefits for the United States.

Policy coordination will not always be easy; there will be tough choices. The broad choice, in the terms used at my confirmation hearing, is when to use the crowbar and when the handshake. We cannot fall into the trap of suspending all actions against unfair trade practices on the ground that such actions "spoil the atmosphere" for the Uruguay Round. On the other hand, we won't achieve our objective of opening markets just by bludgeoning other countries with our own market-closing actions.

We have to accept that there will frequently be trade-offs in the choices we make. That means our decision-making process should include careful weighing of the options and consideration of the advice we get from Congress and the private sector. But we cannot shrink from decisions because they entail some costs.

A concrete example is the recent dispute concerning Brazil's refusal to provide patent protection for pharmaceuticals and fine chemicals. After years of trying to resolve this issue bilaterally, we concluded that we would have to take countermeasures under section 301. The question then arose what action to take. After careful consideration, we determined that action in the area of intellectual property simply would not afford effective leverage with respect to Brazil. We decided that the most effective step would involve restrictions on merchandise imports from Brazil.

Now Brazil has challenged our retaliatory actions in the GATT, contending they are inconsistent with U.S. obligations under the GATT. We have responded that Brazil's charges against us ignore the fundamental problem in the case: lack of patent protection by Brazil for the pharmaceutical and chemical sector, and the absence of effective international rules, and an international dispute settlement mechanism, to protect against such unfair trade practices. We have also indicated that we cannot nor do we intend to terminate retaliation without provision by Brazil of product patent protection for pharmaceuticals and fine chemicals. Finally, we have told Brazil and other GATT contracting parties, many of whom are sympathetic with Brazil's position, that there should be no illusion that a GATT panel can help resolve this matter simply by examining Brazil's contentions under existing GATT rules in this case. We have put the world on notice in this case that we will not rule out trade-restrictive measures that may be necessary to respond to the theft of U.S. intellectual property.

I strongly believe we have taken the right course in this case. Would we have preferred to have no GATT confrontation? Of course. Our first preference is elimination of unfair practices by agreement. Where that is not possible, I think we should try to find leverage that is effective and does not embroil us in GATT disputes. But if no other effective recourse is feasible, we have to be ready to act in defense of principle, and to stand by our actions in the face of flagrantly unfair actions, even if our own actions draw fire in the GATT.

Conclusion

A national trade policy agenda cannot be developed in isolation from global developments in the international trading system. Our agenda for the coming year is likely to influence -- and be influenced by -- macroeconomic policies, international cooperation, and the growing interdependence in international trade.

While the Administration's objectives have been determined through collaboration with the Congress and private sector, achievement of those objectives will require cooperation as well from our trading partners. Although we have a basis for such cooperation, maintaining such cooperation will require creative use of the legal tools provided us under U.S. trade law.

Office of the United States Trade Representative
Section 301 Table of Cases
February 27, 1989

Country and Product Concerned	Complaint	Disposition or Present Status
Guatemala Cargo Preference (301-1)	Delta Steamship Lines, Inc. filed a petition on July 1, 1975, alleging that Guatemala's requirement "mandating certain cargo to Guatemala or associated line carriers" constituted a discriminatory shipping practice (40 FR 29134).	STR completed public hearings on Sept. 26, 1975. Following bilateral negotiations between petitioner and National Shipping Line of Guatemala, petitioner withdrew the petition. STR terminated the investigation on June 29, 1976 (41 FR 26758).
Canada Egg Quota (301-2)	United Egg Producers and American Farm Bureau Federation filed petitions on July 17 and 21, 1975, alleging that a Canadian quota on the importation of US eggs constituted an unfair trade practice (40 FR 33749).	As a result of bilateral negotiations, Canada approximately doubled its quota for imports of US eggs. STR terminated the investigation on March 14, 1976 (41 FR 9430).
EC Supplementary Levies on Egg Imports (301-3)	Seymour Foods, Inc. filed a petition on Aug. 7, 1975, alleging that changes in the EC's supplementary levies on imports of egg albumin impaired the ability of US exporters to contract for sales in the EC (40 FR 34649).	Following informal consultations, supplementary levies were replaced with increased import charges. However, since US exports of egg albumin steadily increased, the Section 301 Committee determined that no further action was necessary. STR terminated the investigation on July 21, 1980 (45 FR 48758).
EC Minimum Import Price & License/Surety Deposit Systems on Canned Fruits, Juices and Vegetables (301-4)	The National Canners Association filed a petition on Sept. 22, 1975, alleging that the EC's minimum import prices and an import license/surety deposit system with respect to canned fruits, juices and vegetables constituted an unfair trade practice (40 FR 44635).	STR initiated an investigation and held public hearings on Nov. 17, 1975. Consultations under GATT Art. XXIII:1(c) were held March 29, 1976. A GATT panel was appointed under Art. XXIII:2. As a result of the panel's report, the EC discontinued use of minimum import price mechanism. STR terminated the investigation on Jan. 5, 1979 (44 FR 1504).
EC Subsidies of Malt Exports (301-5)	Great Western Malting Company filed a petition on Nov. 13, 1975, alleging EC subsidies on malt to third countries (40 FR 54311).	In 1976, the EC reduced the subsidy. STR terminated the investigation on the advice of the Section 301 Committee and with petitioner's agreement on June 19, 1980 (FR 41558).

Country and Product Concerned	Complaint	Disposition or Present Status
EC Export Subsidies on Wheat Flour (301-6)	Millers' National Federation filed a petition on Dec. 1, 1975, alleging violation by the EC of GATT Art. XVI:3 in using export subsidies to gain more than an equitable share of world export trade in wheat flour (40 FR 57249).	STR initiated an investigation on Dec. 8, 1975. Consultations under GATT Art. XXII:1 were held in 1977 and 1980, and technical discussions followed in 1981. On Aug. 1, 1980, the President directed USTR to pursue dispute settlement (45 FR 51169). The Subsidies Code dispute settlement process was initiated on Sept. 29, 1981. The Subsidies Code panel (established on Jan. 22, 1982) issued its conclusions on Feb. 24, 1983. The Code Committee considered the panel report on April 22, May 19, June 10, and Nov. 17, 1983. The issues raised by the panel report are the subject of Uruguay Round negotiations.
EC Variable Levy on Sugar Added to Canned Fruits and Juices (301-7)	The National Canners Association filed a petition on March 30, 1976, alleging that sudden changes in the variable levy assessed on sugars added to canned fruits and juices by the EC constitute unjustifiable and unreasonable import restrictions and impair the value of GATT-bound tariff rates to the US (41 FR 15384).	Following consultations during the MTN, the parties reached an agreement on July 11, 1979, which changed the variable levy to a fixed 2% levy on sugar added. USTR terminated the investigation with the advice of the Section 301 Committee and petitioner's agreement on June 18, 1980 (45 FR 41254).
EC Livestock Feed Mixing Requirement (301-8)	The National Soybean Processors Association and the American Soybean Association filed a petition on March 30, 1976, alleging that the EC's requirement that livestock feed be mixed with domestic nonfat milk constituted an unfair trade practice since it displaced other protein sources such as soybeans and cake imported primarily from the US (41 FR 15384).	STR initiated an investigation, and held a public hearing on June 22, 1976. The GATT panel appointed under Art. XXIII:2 met in February and March 1977. In the interim, the EC terminated its system. STR terminated the investigation on Jan 5, 1979 (44 FR 1504).
Republic of China Tariffs on Major Home Appliances (301-9)	Charles C. Rehfeldt, Executive Vice-President of Lai Fu Trading Co., Ltd., filed a petition on March 15, 1976, alleging unfair trade practices by the Republic of China, in the form of confiscatory tariff levels on imports of major home appliances (41 FR 15452).	STR held public hearings on May 18, 1976. The Republic of China reduced subject duties. STR terminated the investigation on Dec. 1, 1977 (42 FR 61103).

Country and Product Concerned	Complaint	Disposition or Present Status
EC and Japan Diversion of Steel to US (301-10)	The American Iron and Steel Institute filed a petition on Oct. 6, 1976, alleging that the EC and Japan had engaged in an unfair trade practice by agreeing to divert significant quantities of Japanese steel exports to the US (41 FR 45628).	STR held public hearings on Dec. 9, 1976. STR terminated the investigation on Jan. 30, 1978, on the ground that there was not sufficient justification to the claim that the EC-Japan agreement created an unfair burden on the US (43 FR 3962).

Country and Product Concerned	Complaint	Disposition or Present Status
EC Citrus Tariff Preferences for Certain Mediterranean Countries (301-11)	Florida Citrus Commission et al. filed petitions on Nov. 12, 1976, alleging that the EC's preferential tariffs on orange and grapefruit juices and fresh citrus fruits from certain Mediterranean countries have an adverse effect on US citrus exports to the EC (41 FR 52567).	STR initiated an investigation on Nov. 30, 1976, and held public hearings on Jan. 25, 1977. During the MTN, the US obtained duty reductions on fresh grapefruit only. GATT Art. XXII:1 consultations were held in October 1980, followed by informal discussions. Formal consultations under GATT Art. XXIII:1 were held April 20, 1982. Conciliation efforts in September 1982 failed. On Nov. 2, 1982, the GATT Council agreed to establish a panel. The panel composition and terms of reference of the panel took some months to resolve. The panel met on Oct. 31 and Nov. 29, 1983, and Feb. 13 and Mar. 12, 1984. The factual portion of the panel report was submitted to the parties on Sept. 27. The full report was submitted on Dec. 14, 1984. The GATT Council considered the panel's findings and recommendations on March 12 and April 30, 1985, but the EC blocked any action. On April 30, the US considered the dispute settlement concluded. On May 10 USTR held a public hearing on the substance of our recommendations to the President (50 FR 15266). USTR transmitted his recommendation on May 30, and on June 20 the President determined that the EC practices deny benefits to the US arising under the GATT, are unreasonable and discriminatory, and constitute a burden on US commerce (50 FR 26143). Effective July 6, the President imposed a 40% ad valorem duty on pasta products not containing egg and a 25% ad valorem duty on pasta products containing egg (50 FR 26143). The EC reacted by raising duties on lemons and walnuts imported from the U.S., effective July 8.

Country and Product Concerned	Complaint	Disposition or Present Status
		On July 19, USTR announced that in return for the US suspension of increased duties on imported pasta, the EC would drop its proposed duty increases, reduce EC pasta export subsidies by 45%, and take steps to increase access to the EC market for US citrus exports by Oct. 31. Because the EC did not increase our access to its citrus market by Oct. 31 as promised, the US imposed the substantially higher duties on pasta imported from the EC on Nov. 1. The EC then counter-retaliated and imposed higher duties on lemons and walnuts imported from the U.S. On August 10, 1986, the US and EC reached an agreement that resolved this case. The US obtained tariff concessions from the EC on citrus products. In addition, the agreement provides for EC tariff concessions on almonds and peanuts, in return for certain US tariff reductions. After negotiating this agreement, both the US and EC terminated their retaliatory duties (51 FR 30146). Subsequently the US increased the EC cheese quota (52 FR 8439) and the EC lowered its tariffs on some products. Authority to reduce US tariffs is included in the Omnibus Trade and Competitiveness Act of 1988, and was implemented by Presidential Proclamation on December 21, 1988. Finally, the US and EC agreed to negotiate a prompt settlement to the pasta dispute (see Docket No. 301-25).
Brazil, Korea and PRC Thrown Silk Agreements with Japan (301-12)	George F. Fisher, Inc. filed a petition on Feb. 14, 1977, alleging that Japanese agreements with Brazil, Korea and the PRC permitting imports of thrown silk effectively prevented the entry of such imports from the United States, and that this constituted discriminatory conduct (40 FR 11935).	STR held a public hearing on March 29, 1977. Following the failure of accelerated discussions with Japan, the US filed a complaint under GATT XXIII:2. A dispute settlement panel heard the case in the fall, 1977. Before the GATT panel issued its report, Japan adjusted the restrictions. STR terminated the investigation on March 3, 1978 (43 FR 8876).

Country and Product Concerned	Complaint	Disposition or Present Status
Japan Leather (301-13)	The Tanners Council of America filed a petition on Aug. 4, 1977, alleging violation by Japan of GATT Art. XI in imposing quantitative restrictions on imports of leather from the U.S., and excessively high tariffs (42 FR 42413).	STR initiated an investigation on Aug. 23, 1977. The US consulted with Japan under GATT Art. XXIII:1 in January 1979, which resulted in an understanding to expand the quota on imported leather. In light of this understanding, the President decided not to take retaliatory action; however, on Aug. 1, 1980 (45 FR 51171), he directed USTR to monitor implementation of the understanding. Since the results of the 1979-82 bilateral leather understanding were unsatisfactory, USTR pursued GATT dispute settlement. The US and Japan consulted under GATT Art. XXIII:1 on Jan. 27-28, March 30 and April 12, 1983. A dispute settlement panel under GATT Art. XXIII:2 was authorized on April 20, 1983. That panel heard the case in the fall and winter of 1983-84. In February 1984, the panel found that Japan's leather quotas violated GATT Art. XI and caused nullification or impairment of US GATT benefits. The GATT Council adopted the panel report on May 16, 1984. The US rejected as inadequate Japan's mid-1985 proposal to replace the quota by a high tariff. On Sept. 7, 1985, the President directed USTR to recommend retaliation unless the leather and leather footwear restrictions were satisfactorily resolved by Dec. 1. (See also Docket No. 301-36.) In December 1985 Japan agreed to provide about $236 million in compensation through reduced (or bound) Japanese tariffs. The US raised tariffs on an estimated $24 million in imports of leather and leather goods from Japan, effective March 31, 1986 (51 FR 9435).

Country and Product Concerned	Complaint	Disposition or Present Status
USSR Marine Insurance (301-14)	The American Institute of Marine Underwriters filed a petition on Nov. 10, 1977, alleging that the USSR unreasonably required that marine insurance on all trade between the US and the USSR be placed with a Soviet state insurance monopoly (43 FR 3635).	In June 1978, the President determined that the Soviet practice is unreasonable (43 FR 25212). On July 12, 1979, USTR suspended the investigation pending review of the operation of the U.S.-Soviet agreement (44 FR 40744). The suspension remains in effect (45 FR 49428).
Canada Border Broadcasting (301-15)	Certain US television licensees filed a petition on Aug. 29, 1978, alleging that certain provisions of the Canadian Income Tax Act were unreasonable in denying tax deductions to any Canadian taxpayer for advertising time purchased from a U.S. broadcaster for advertising aimed at the Canadian market, when deductions were granted for the purchase of advertising time from a Canadian broadcaster (43 FR 39610).	STR held public hearings in November 1978 and July 1980. The President determined on Aug. 1, 1980, that the most appropriate response was legislation to mirror in US law the Canadian practice (45 FR 51173). That proposal was sent to Congress on Sept. 9, 1980, and again in November 1981. Legislation was enacted on Oct. 30, 1984. Trade and Tariff Act of 1984, Sec. 232, Pub. L. No. 98-573.
EC Wheat Export Subsidies (301-16)	Great Plains Wheat, Inc. filed a petition on Nov. 2, 1978, alleging that EC export subsidies were enabling exports of wheat from the EC to displace US exports in third country markets (43 FR 59935).	STR held public hearings in February 1979, and consulted with the EC in July 1979. Both parties agreed to monitor developments in the wheat trade, exchange information, and consult further to address any problems that might arise. USTR terminated the investigation on Aug. 1, 1980 (45 FR 49428).
Japan Cigars (301-17)	The Cigar Association of America, Inc. filed a petition on March 14, 1979, alleging that Japan imposes unreasonable import restrictions, internal taxes or charges on imports in excess of those placed on domestic products, and discriminatory restrictions on the marketing, advertising, and distribution of imported cigars (44 FR 19083).	During panel deliberations under GATT Art. XXIII:2 in March 1980, Japan repealed its internal tax on imported cigars and applied an import duty of 60% ad valorem. Prior to completion of panel action, the US and Japan reached agreement that liberalized market restrictions and reduced the import duty. USTR terminated the investigation on Jan. 6, 1981 (46 FR 1389). GATT proceedings terminated in April 1981.

Country and Product Concerned	Complaint	Disposition or Present Status
Argentina Marine Insurance (301-18)	The American Institute of Marine Underwriters filed a petition on May 25, 1979, alleging that Argentina's requirement that marine insurance on trade with Argentina be placed with an Argentine insurance firm is unreasonable and burdens US commerce (44 FR 32057).	STR initiated an investigation on July 2, 1979, and held a public hearing on Aug. 29, 1979. Upon Argentina's commitment to participate in multilateral negotiations, a goal of which was the elimination of restrictive practices in the insurance sector, USTR suspended the investigation on July 25, 1980 (45 FR 49732).
Japan Pipe Tobacco (301-19)	The Associated Tobacco Manufacturers filed a petition on Oct. 22, 1979, alleging that Japan set unreasonable prices for imported pipe tobacco and restricted its distribution and advertising (44 FR 64938).	In November 1979, USTR consolidated this case with 301-17 alleging identical practices with respect to cigars. USTR terminated the investigation on Jan. 6, 1981 (46 FR 1388).
Korea Insurance (301-20)	The American Home Assurance Company filed a petition on Nov. 5, 1979, alleging that the Republic of Korea was discriminating against petitioner by failing to issue a license permitting petitioner to write insurance policies covering marine risks; not permitting petitioner to participate in joint venture fire insurance; and failing to grant retrocessions from Korea Reinsurance Corp. to petitioner on the same basis as Korean insurance firms (44 FR 75246).	On Dec. 19, 1979, USTR initiated an investigation. On Nov. 26, 1980, USTR invited public comments on, inter alia, proposals for retaliation (45 FR 78850). Beginning in June 1980, several rounds of consultations were held, resulting in Korea's commitment to promote more open competition in the insurance market. Upon withdrawal of the petition on Dec. 19, USTR terminated the investigation on Dec. 29, 1980 (45 FR 85539). See Docket No. 301-51.
Switzerland Eyeglass Frames (301-21)	Universal Optical Co., Inc. filed a petition on Dec. 6, 1979, alleging that the Swiss Customs Service engaged in unreasonable practices by requiring an assay to be done to determine the gold content of the trim in eyeglass frame examples before their importation (45 FR 7654).	Petitioner withdrew its petition on Nov. 10, 1980. USTR terminated the investigation on Dec. 11, 1980 (45 FR 81703).

Country and Product Concerned	Complaint	Disposition or Present Status
EC Sugar Export Subsidies (301-22)	Great Western Sugar Company filed a petition on Aug. 20, 1981, alleging EC violation of GATT Art. XVI and the Subsidies Code in using export subsidies to obtain more than an equitable share of world export trade in sugar (46 FR 49697).	USTR initiated an investigation on Oct. 5, 1981, and held a public hearing on Nov. 4, 1981. The US consulted with the EC under Art. 12:3 of Subsidies Code on Feb. 16, 1982. The conciliation phase was completed by April 30, 1982. USTR submitted a recommendation to the President on June 7, 1982. On June 28, 1982, the President directed USTR to continue international efforts to eliminate or reduce EC subsidies (47 FR 28361). On July 29, 1987 the petitioners requested that the investigation be reactivated. USTR denied their request; agricultural export subsidies are being addressed in the Uruguay Round negotiations.
EC Poultry Export Subsidies (301-23)	The National Broiler Council filed a petition on Sept. 17, 1981, alleging EC violation of GATT Art. XVI and the Subsidies Code in using export subsidies that displace US poultry exports to third country markets (46 FR 54831).	USTR initiated an investigation on Oct. 28, 1981. Consultations with the EC under Art. 12:3 of the Subsidies Code were held Feb. 16, 1982. On June 11, the US submitted requests for information under Art 17 of the Code to the EC and Brazil. USTR submitted a recommendation to the President on June 28, 1982. On July 12, the President directed expeditious examination of Brazilian subsidies (47 FR 30699). The US informally consulted with Brazil on Aug. 30, 1982, and additionally consulted with the EC on Oct. 7, 1982. Formal Art. 12 consultations with Brazil were held April 1, 1983, and the US met again with the EC and Brazil on June 23. Since these consultations did not resolve the problem, the US requested conciliation. The Subsidies Code Committee held the first conciliation meeting on Nov. 18, 1983. Conciliation continued on April 4, May 4, June 20, and Oct. 16, 1984. No further action has taken place in the Subsidies Code Committee; agricultural export subsidies are being addressed in the Uruguay Round negotiations.

Country and Product Concerned	Complaint	Disposition or Present Status
Argentina Hides (301-24)	The National Tanners' Council filed a petition on Oct. 9, 1981, alleging breach by Argentina of a U.S.-Argentina hides agreement, and unreasonable restrictions on commerce imposed by Argentine hide export controls (46 FR 59353).	USTR initiated an investigation on Nov. 24, 1981. The US consulted with Argentina on Feb. 23 and April 15, 1982. USTR held a public hearing on Oct. 6, 1982, on a proposed recommendation to the President concerning termination (47 FR 40959). The US terminated the hides agreement effective Oct. 29, 1982, and the President increased the US tariff on leather imports effective Oct. 30 (47 FR 49625). Petitioner withdrew its petition on Nov. 9, 1982. USTR terminated the investigation on Nov. 16, 1982 (47 FR 52989).

USTR COMPUTER GROUP

Country and Product Concerned	Complaint	Disposition or Present Status
EC Pasta Export Subsidies (301-25)	The National Pasta Association filed a petition on Oct. 16, 1981, alleging EC violation of GATT Art. XVI and the Subsidies Code in using pasta export subsidies, resulting in increased imports into the US (46 FR 59675).	USTR initiated an investigation on Nov. 30, 1981. Beginning on Dec. 2, 1981, the US consulted with the EC several times. On March 1, 1982, the US referred this matter to the Subsidies Code Committee for conciliation. The US later requested a dispute settlement panel, and on April 7 the Committee authorized its establishment. The panel began its work on July 12. On July 21, the President directed USTR expeditiously to complete dispute settlement (47 FR 31841). The panel met again on Oct. 8 and issued factual findings on Jan. 20, 1983. At the EC's request, an additional panel meeting was held March 29. The panel report (3-1 in favor of the U.S.) was submitted to the Subsidies Code Committee May 19. The Committee considered the report on June 9 and Nov. 18, but deferred decision on adoption of the report. In 1985 and 1986, the US increased duties on pasta imports in retaliation against the EC's discriminatory citrus tariffs (50 FR 26143, 33711; 51 FR 30146). The EC counter-retaliated by raising its duties on lemons and walnuts. See the Citrus case, Docket No. 301-11. Under the agreement reached in that case on Aug. 10, 1986, both parties agreed to terminate their retaliatory duties (51 FR 30146) and to settle the pasta dispute through prompt, good faith negotiations. A tentative agreement was reached on Aug. 5, 1987, under which the EC agreed to reduce its pasta export subsidies by 27.5%, which is intended to eliminate all export subsidies on half the pasta exported to the US. The Agreement was signed Sept. 15, 1987. On Sept. 30, 1987, the President proclaimed that the Customs Service shall exclude from entry into the US any EC pasta unless accompanied by appropriate documentation determined by USTR to be

Country and Product Concerned	Complaint	Disposition or Present Status
CONTINUED		necessary to enforce the Agreement (52 FR 36897).
EC Canned Fruit Production Subsidies (301-26)	The California Cling Peach Advisory Board et al. filed a petition on Oct. 23, 1981, alleging violation by the EC of GATT Art. XVI in granting production subsidies on EC member states' canned peaches, canned pears and raisins, that displace sales of non-EC products within the EC and impair tariff bindings on those products (46 FR 61358).	USTR initiated an investigation on Dec. 10, 1981. The US consulted with the EC under GATT Art. XXIII:1 on Feb. 25, 1982. The US requested a dispute settlement panel under Art. XXIII:2 on March 31, 1982. On Aug. 17, 1982, the President directed USTR to expedite dispute settlement (47 FR 36403). The panel met on Sept. 29 and Oct. 29, 1982. The panel report was submitted to the US and EC on Nov. 21, 1983. The panel met again with the parties on Feb. 27, 1984. A revised panel report was submitted to both parties on April 27, 1984. An additional panel meeting was held on June 28. A final panel report was issued on July 20. The US requested adoption of the panel report in GATT Council meetings of April 30, May 29, June 5 and July 16, but Council action was deferred because the EC was not yet ready to act on the report. On Sept. 7, 1985, the President directed USTR to recommend retaliation unless this case was resolved by Dec. 1, 1985. In December 1985 the US and the EC reached a settlement under which, in addition to subsidy reductions already implemented on canned pears, the EC agreed to phase out processing subsidies for canned peaches. In October and November 1988 USTR consulted with the EC regarding its failure to fully implement the settlement agreement. Technical talks continued in 1989 regarding EC calculation of its subsidies, and the matter was raised at Ministerial level on February 18, 1989.

Country and Product Concerned	Complaint	Disposition or Present Status
Austria Specialty Steel Domestic Subsidies (301-27)	The Tool and Stainless Steel Industry Committee et al. filed a petition on Dec. 2, 1981, and refiled on Jan. 12, 1982, alleging that domestic subsidies for specialty steel industries in Belgium, France, Italy, U.K., Austria, Brazil and Sweden violate the GATT and Subsidies Code, and that imports from those coun- tries adversely affect the US industry (47 FR 10107).	USTR initiated an investigation on Feb. 26, 1982, with respect to allegations against Austria, France Italy, Sweden, and the U.K. The US consulted informally with those governments in March 1982. USTR held a public hearing on April 14, 1982. Consultations under the Subsidies Code were held in October 1982. On Nov. 16, 1982, the President directed USTR to: (1) request the ITC to conduct an expedited investigation under section 201 of the 1974 Trade Act; (2) initiate multilateral and/or bilateral discussions aimed at eliminating all trade distortive practices in the specialty steel sector; and (3) monitor US imports of specialty steel products subject to the Sec. 201 investigation (47 FR 51717). The ITC found injury. USITC Pub. 1377 (May 1983). Effective July 20, 1983, the President imposed a combination of tariffs and quotas (48 FR 33233).
France Specialty Steel Domestic Subsidies (301-28)	See 301-27.	See 301-27.
Italy Specialty Steel Domestic Subsidies (301-29)	See 301-27.	See 301-27.
Sweden Specialty Steel Domestic Subsidies (301-30)	See 301-27.	See 301-27.
U.K. Specialty Steel Domestic Subsidies (301-31)	See 301-27.	See 301-27.
Canada Railcar Export Subsidies (301-32)	The AFL-CIO et al. filed a petition on June 3, 1982, alleging that the Canadian Government's export credit financing for subway cars to be exported to the US violates the Subsidies Code and is unreasonable and a burden on US commerce (47 FR 31764).	USTR initiated an investigation on July 19, 1982. The US had already consulted with Canada under the Subsidies Code on July 5, 1982. USTR terminated the investigation on Sept. 23, 1982, because the same allegations were the subject of a countervailing duty investigation (47 FR 42059).

Country and Product Concerned	Complaint	Disposition or Present Status
Belgium Specialty Steel Domestic Subsidies (301-33)	The Tool and Stainless Steel Industry Committee et al. filed a petition on June 23, 1982, alleging that domestic subsidies for Belgian steel production violate the GATT and Subsidies Code, and that imports of Belgian steel adversely affect the US industry (47 FR 35387).	USTR initiated an investigation on Aug. 9, 1982. The US consulted under the Subsidies Code in October 1982. The Presidential determination of Nov. 16, 1982 (see 301-27 above), covers this petition as well.
Canada Front-End Loaders Duty Remissions (301-34)	The J.I. Case Company filed a petition on July 27, 1982, alleging that Canada's regulations allowing remission of customs duties and sales tax on certain front-end loaders violate the GATT and Subsidies Code, are unreasonable and discriminatory and burden and restrict US commerce. Petitioner amended and refiled a petition on Sept. 13, 1982 (47 FR 51029).	USTR initiated an investigation on Oct. 28, 1982, and held a public hearing on Dec. 14, 1982. The US consulted with Canada under GATT Art. XXII on Dec. 21, 1982.
Brazil Non-rubber Footwear Import Restrictions (301-35)	The Footwear Industries of America, Inc. et al. filed a petition on Oct. 25, 1982, alleging that import restrictions on non-rubber footwear by the EC and the governments of France, Italy, the United Kingdom, Spain, Brazil, Japan, Taiwan and Korea deny US access to those markets, are inconsistent with the GATT, and are unreasonable and/or discriminatory and a burden on US commerce (47 FR 56428).	On Dec. 8, 1982, USTR initiated investigations of the alleged restrictive practices (other than allegations that GATT-bound tariffs are excessive) made against Brazil, Japan, Korea and Taiwan. Consultations under GATT Art. XXII were held April 4, 1983. In November 1985, Brazil offered to liberalize its import surcharge and to reduce tariffs.

Country and Product Concerned	Complaint	Disposition or Present Status
Japan Non-Rubber Footwear Import Restrictions (301-36)	See 301-35.	See 301-35. The US consulted on Jan. 27, 1983, and requested GATT Art. XXIII consultations in February 1984. Consultations under Art. XXIII:1 were held in April 1985. In July 1985, the US decided to proceed under Art. XXIII:2 and requested application of the conclusions reached by a dispute settlement panel in 1984 on the leather quota to the Japanese leather footwear quota as well (See 301-13). On Sept. 7, 1985, the President directed USTR to recommend retaliation unless the leather and leather footwear restrictions were satisfactorily resolved by Dec. 1. In December 1985 Japan agreed to provide an estimated $236 million in compensation through reduced (or bound) Japanese tariffs. Also the US has raised tariffs on an estimated $24 million in imports into the US of leather and leather goods from Japan (51 FR 9435).
Korea Non-Rubber Footwear Import Restrictions (301-37)	See 301-35.	See 301-35. The US and Korea consulted on Feb. 5, 1983, and in August 1983. Korea reduced tariffs on footwear items and removed all leather items from the import surveillance list.
Taiwan Non-Rubber Footwear Import Restrictions (301-38)	See 301-35.	See 301-35. The US consulted with Taiwan on Jan. 17, 1983. On Dec. 19, 1983, the President determined that Taiwan does not impose unfair barriers on US imports; he nevertheless directed USTR to pursue offers regarding marketing assistance for US exporters (48 FR 56561). The issues raised in the petition are no longer the subject of an investigation.

Country and Product Concerned	Complaint	Disposition or Present Status
Korea Steel Wire Rope Subsidies and Trademark Infringement (301-39)	The Committee of Domestic Steel Wire Rope and Specialty Cable Manufacturers filed a petition on March 16, 1983, alleging that production and export of Korean steel wire rope is subsidized, that Korea limits imports of steel wire rope from Japan thereby causing diversion to the US market, and that Korean rope producers are infringing US trademarks (48 FR 20529).	USTR initiated an investigation on May 2, 1983, with respect to claims of production subsidies. USTR held a hearing on June 2, 1983, and requested consultations under the Subsidies Code. Petitioner withdrew its petition on Nov. 29, 1983, and effective Dec. 15, 1983, USTR terminated the investigation (48 FR 55790).
Brazil Soybean Oil and Meal Subsidies (301-40)	The National Soybean Processors Association filed a petition on April 16, 1983, alleging that the governments of Argentina, Brazil, Canada, Malaysia, Portugal and Spain engage in unfair practices, including export and production subsidies and quantitative restrictions that restrict US exports of soybean oil and meal (48 FR 23947).	On May 23, 1983, USTR initiated an investigation involving Brazil, Portugal, and Spain. USTR held a public hearing on June 29 and 30. The US and Brazil consulted under Art. 12 of the Subsidies Code on Nov. 21. USTR submitted a recommendation to the President on Jan. 23, 1984; on Feb. 13, the President directed USTR to pursue dispute settlement procedures under the Subsidies Code (49 FR 5915). The US has requested additional consultations.
Portugal Soybean Oil and Meal Subsidies (301-41)	See 301-40.	The US and Portugal consulted under GATT Art. XXII on Nov. 29, 1983. In June 1984, Portugal began lifting its restrictions on soymeal imports.
Spain Soybean Oil and Meal Subsidies (301-42)	See 301-40.	The US and Spain consulted under GATT Art. XXII on Dec. 1, 1983.
Taiwan Rice Export Subsidies (301-43)	The Rice Millers Association filed a petition on July 13, 1983, which it withdrew on Aug. 26. It refiled on Sept. 29, 1983, alleging that Taiwan subsidizes exports of rice that restrict US exports and burden the US support program (48 FR 56289).	On Oct. 11, 1983, USTR initiated an investigation. Consultations were held Dec. 8-9, 1983, and Jan. 17-18 and Feb. 20-22, 1984. Based on an understanding reached during those discussions providing for limits on subsidized rice exports from Taiwan, petitioner withdrew its petition on March 9, 1984, and USTR terminated the investigation on March 22 (49 FR 10761).

Country and Product Concerned	Complaint	Disposition or Present Status
Argentina Air Couriers (301-44)	The Air Courier Conference of America filed a petition on Sept. 21, 1983, alleging that Argentina has acted unreasonably in granting exclusive control over the international air transporta- tion of time-sensitive commercial documents to the Argentine postal system (48 FR 52664).	On Nov. 7, 1983, USTR initiated an investigation and requested consultations. Consultations were held March 22, 1984. USTR held a public hearing on proposals for action under Sec. 301 on Oct. 24. On Nov. 16, 1984, the President determined that Argentine practices were unreasonable and a restriction on US commerce. He directed USTR again to consult, as requested by Argentina, and to submit proposals for action under Sec. 301 within 30 days. Prior to the 30-day period, Argentina lifted its prohibition for a 90-day period (49 FR 45733). In March 1985, the restrictions were lifted, but were replaced by heavy discriminatory taxes which are now the subject of renewed consultations.
Taiwan Films (301-45)	The Motion Picture Exporters Association of America filed a petition on Dec. 19, 1983, alleging that Taiwan discriminates against foreign film distributors (49 FR 5404).	On Jan. 30, 1984, USTR initiated an investigation. Petitioner withdrew its petition on April 17, 1984, USTR terminated the investigation on April 26 (49 FR 18056).
European Space Agency Satellite Launching Services (301-46)	Transpace Carriers, Inc. filed a petition on May 25, 1984, alleging that the member governments of the European Space Agency (ESA)--Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands, Sweden, Spain, Switzerland and the United Kingdom-- and their space-related instrumentalities subsidize satellite launching services offered by Arianespace (49 FR 28643).	On July 9, 1984, USTR initiated an investigation and requested consultations with the European Space Agency. Consultations were held Nov. 12-13 and Dec. 17-18, 1984, and Feb. 21-22 and May 20, 1985. The US consulted with Arianespace on May 21, 1985. On July 9, USTR submitted a recommendation to the President. On July 17, the President found that ESA's practices were not unreasonable, and terminated the investigation (50 FR 29631).
EC Triple Superphosphate Water Solubility Standard (301-47)	The Fertilizer Institute filed a petition on Aug. 17, 1984, alleging that a technical water solubility standard for triple superphosphate adopted by the EC is inconsistent with the Standards Code.	On Oct. 1, 1984, USTR initiated an investigation. The US and EC consulted under the Standards Code on Dec. 5-6, 1984.

Country and Product Concerned	Complaint	Disposition or Present Status
Japan Semiconductors (301-48)	The Semiconductor Industry Association filed a petition on June 14, 1985, alleging that the Japanese government has created a protective structure that acts as a major barrier to the sale of foreign semiconductors in Japan (50 FR 28866).	USTR initiated an investigation on July 11, 1985. USTR asked parties to submit comments regarding the petition by Aug. 26, 1985. The US and Japan consulted in August, September, November and December 1985, followed by technical discussions in January and February 1986, and further consultations in March, April, May, June and July. On July 31, 1986, the US and Japan reached agreement ad referendum under which Japan would increase access for US firms to the Japanese semiconductor market, and help prevent dumping of semiconductors in US and third country markets. The President approved this agreement in a determination under Sec. 301 and suspended the investigation (51 FR 27811), and the USTR signed the final agreement Sept. 2, 1986. In March 1987, the Section 301 Committee requested public comment on possible US actions in response to Japan's failure to fulfill its obligations under the semiconductor agreement (52 FR 10275). A hearing was held April 13, 1987. On April 17, the President determined that Japan had not implemented or enforced major provisions of the agreement (52 FR 13419), and in response proclaimed increased duties on imports of certain articles of Japan (i.e., certain televisions, power hand tools, and automatic data processing machines) (52 FR 13412). Effective June 16, 1987, USTR suspended increased duties on imports of 20-inch color televisions because of Japan's improved conformity with its obligations under the agreement (52 FR 22693). Effective Nov. 10, 1987, USTR suspended increased duties on imports of certain power hand tools, 18- and 19-inch color televisions, and low performance 16-bit desktop computers the product of Japan because of Japan's complete compliance with its "dumping" obligations under the Agreement (52 FR 216). The other

Country and Product Concerned	Complaint	Disposition or Present Status
CONTINUED		sanctions proclaimed on April 17, 1987, - remain in effect.

Country and Product Concerned	Complaint	Disposition or Present Status
Brazil Informatics (301-49)*	On Sept. 16, 1985, USTR self-initiated an investigation at the President's direction into all aspects of Brazil's informatics policy, including investment restrictions, subsidies, and import restrictions (50 FR 37608).	After extensive discussions with US industry, the US consulted with Brazil in February, July, August and Sept. 1986. On Oct. 6, the President determined that Brazil's informatics policy is unreasonable, and continued the case until Dec. 31, 1986. He directed the Trade Representative to notify the GATT of our intention to suspend tariff concessions for Brazil under Art. XVIII, and to effect such suspension when appropriate (51 FR 35993). On Dec. 30, the Trade Representative announced the President's determination to suspend the investigation with respect to Brazil's administration of its informatics policy and import restrictions, in light of improvement in these areas. However, because of insufficient progress to date in negotiations on related intellectual property protection and investment restrictions, the President announced he would determine the appropriate response of the US within six months unless a satisfactory resolution was reached (52 FR 1619). On Feb. 10, 1987, USTR announced a hearing and invited public comment on specified intellectual property and investment issues in this case (52 FR 4207). On June 30, 1987, the President suspended the intellectual property portion of the investigation based upon Brazilian legislative action toward enactment of a bill that would provide adequate copyright protection to computer software (52 FR 24971). He also directed USTR to continue the portion of the investigation regarding investment. On Nov. 13, 1987, the President announced his intention to prohibit imports of Brazilian informatics products and to raise duties or otherwise restrict imports of about $105 million in other Brazilian products. This action is in

Country and Product Concerned	Complaint	Disposition or Present Status
CONTINUED		response to Brazil's breach of understandings regarding Brazil's market reserve policy, which furnished the basis for the President's suspension of the intellectual property portion of this investigation. Public comments were requested (52 FR 44939, 47071), and a hearing was held Dec. 17 and 18, 1987. On Feb. 29, 1988, retaliation was postponed to provide an opportunity to review Brazil's regulations to implement a software law enacted in December 1987. On June 17, 1988, USTR announced that it did not then propose to pursue retaliation, although it would monitor whether US firms obtained fair and equitable access to the Brazilian market for their software products.
Japan Tobacco Products (301-50)*	On Sept. 16, 1985, at the President's direction, USTR self-initiated an investigation of Japanese practices (including high tariffs, Japan Tobacco Institute's manufacturing monopoly, and distribution restrictions) that act as a barrier to US cigarette exports (50 FR 37609).	After discussions with US industry, on Feb. 3, 1986, USTR requested consultations with Japan. The US presented a lengthy questionnaire on Feb. 11, and held technical discussions Feb. 21. The US raised this case during Sub-Cabinet meetings on Feb. 28, and consulted in Tokyo on March 4 and on April 16-17. The US received answers to its questionnaire on March 21. The US consulted with Japan May 27-28; August 13, 18, and 28-29; Sept. 8, 9, 11, 25, 26 and 29; and Oct. 1-3. On Oct. 3, the US and Japan concluded an agreement under which Japan will reduce its tariff on cigarettes to zero, eliminate the discriminatory deferral in excise tax payment, and terminate discriminatory distribution practices. On Oct. 6, 1986, the President approved this agreement and suspended the investigation, directing that it be terminated when Japan fully implements the agreement (51 FR 35995).

Country and Product Concerned	Complaint	Disposition or Present Status
Korea Insurance (301-51)*	On Sept. 16, 1985, at the President's direction, USTR self-initiated an investigation of Korean practices that restrict the ability of US insurers to provide insurance services in the Korean market (50 FR 37609).	See 301-20. The US consulted with Korea in November and December 1985 and February, March and July 1986. On July 21, 1986, the White House announced the conclusion of an agreement with Korea that will increase US firms' access to the Korean insurance market by enabling them to underwrite both life and non-life insurance. The President approved the agreement and terminated the investigation on Aug. 14 (51 FR 29443). The final agreement was signed Aug. 28. It was amended on Sept 10, 1987, setting forth more detailed requirements regarding insurance operations through joint ventures. In January, 1988, the US and ROK further clarified the Sept. 10 amendment to specify the terms under which some Korean firms could participate in joint ventures.
Korea Intellectual Property Rights (301-52)*	On Nov. 4, 1985, USTR self-initiated an investigation of Korea's lack of effective protection of US intellectual property rights (50 FR 45883).	The US consulted with Korea in November and December 1985 and throughout February-July 1986. On July 21, 1986, the White House announced the conclusion of an agreement with Korea that will dramatically improve protection of intellectual property rights in Korea. The President approved the agreement and terminated the investigation on Aug. 14, 1986 (51 FR 29445). The final agreement was signed Aug. 28, 1986. Implementation of the agreement continues to be monitored, and on June 13, 1988, the Trade Representative formed an interagency task force to examine Korean practices related to obtaining and enforcing patent rights. The task force made a preliminary report to USTR in December 1988. Followup discussions are being held with the Korean Government.

Country and Product Concerned	Complaint	Disposition or Present Status
Argentina - Soybeans and Soybean Products (301-53)	The National Soybean Processors Association filed a petition on April 4, 1986, alleging that the differential in Argentine export taxes (higher for soybeans than for soybean products) provides Argentine crushers with an unfair cost advantage that burdens US exports in third-country markets.	USTR initiated an investigation on April 25, 1986 (51 FR 16764). Following bilateral consultations with Argentina, the President suspended this investigation on May 14, 1987, based upon Argentina's assurance that it planned to eliminate these export taxes and thus any differential (52 FR 18685). In February 1988, Argentina reduced the export tax differential by 3 percent. However, on July 29, 1988, Argentina established a tax rebate on oil and meal exports to third countries which subsidize these products. Hence, consultations with Argentina resumed in August 1988.

Country and Product Concerned	Complaint	Disposition or Present Status
EC Enlargement (301-54)*	On March 31, 1986, the President announced his intention to (1) impose quotas on EC products if the EC did not remove certain quantitative restrictions on oilseeds and grains in Portugal; and (2) increase tariffs on EC products if the EC did not provide compensation for US losses resulting from the EC's imposition of variable levies on corn and sorghum imports into Spain in breach of prior tariff commitments.	On May 15, 1986, the President imposed quotas on EC imports in response to the EC's quantitative restrictions in Portugal (51 FR 18294). On Oct. 14, 1987, the level of these quota restrictions was increased to avoid a more damaging effect on EC trade than is warranted by the current operation of the EC restrictions in Portugal (52 FR 38167). On July 2, 1986, an interim solution was reached with the EC with regard to the import levy restrictions in Spain. That solution provided that any shortfall in US corn, sorghum, and corn gluten feed exports to Spain below a monthly EC average of 234,000 metric tons through the remainder of 1986 would be compensated for through reduced import levy quotas in the EC. On Dec. 30, 1986, the US announced that unless the EC agreed to compensate the US satisfactorily by the end of January for $400 million in lost corn and sorghum exports to Spain, the President would be compelled to impose duties of 200% ad valorem on imports into the US of certain EC cheeses, ham, carrots, endive, white wine, brandy and gin-accounting for $400 million in EC exports to the US. The President proclaimed these tariff increases on Jan. 21, 1987, to take effect Jan. 30 (52 FR 2663). On Jan. 30, 1987, the US and EC settled this case. The EC agreed to ensure annual imports of corn and sorghum in Spain of 2 million and 300,000 metric tons, respectively. It also agreed to rescind its requirement in Portugal that 15 percent of the Portuguese grain market (about 400,000 metric tons) be reserved for sales from EC member countries. It further agreed to reduce duties on 26 other products (including plywood, apple and cranberry juices, and certain aluminum products), and to extend all current EC tariff bindings to Spain and

Country and Product Concerned	Complaint	Disposition or Present Status
CONTINUED		Portugal. In light of these developments, the Trade Representative suspended the increased duties proclaimed Jan. 21, 1987 (52 FR 3523).
Canada Fish (301-55)	Icicle Seafoods and nine other seafood processors filed a petition on April 1, 1986, alleging that the Canadian prohibition on the export of unprocessed herring and salmon violates GATT Article XI and provides Canadian processors with an unfair cost advantage that burdens US exports in third country markets.	USTR initiated an investigation on May 16, 1986 (51 FR 19648), and requested comments on certain economic issues relating to the investigation. The US consulted with Canada under Art. XXIII:1 of the GATT Sept. 3 and Oct. 27, 1986, and presented arguments before a GATT dispute settlement panel on June 18 and July 10, 1987. The US won the case, and the favorable panel report was adopted by the GATT Council in February 1988. Canada has announced that it will terminate the export restrictions concerned by Jan. 1, 1989, although it will then adopt some new landing requirements. On August 30, 1988, a Federal Register notice (53 FR 33207) requested comments on the unfairness determination required under the Omnibus Trade and Competitiveness Act of 1988. The US and Canada are still consulting on Canada's plans to introduce new landing requirements.
Taiwan Customs Valuation (301-56)*	On Aug. 1, 1986, the President determined that Taiwan's use of a duty paying system to calculate customs duties violated a trade agreement and was unjustifiable and unreasonable and a burden or restriction on US commerce (51 FR 28219). He directed the Trade Representative to propose an appropriate method for retaliation.	By an exchange of letters dated Aug. 11, the Taiwan authorities agreed to take actions by Sept. 1, 1986, to abolish the duty paying schedule effective Oct. 1, 1986. USTR confirmed that Taiwan did so, and therefore advised the public that no retaliatory action would be proposed as earlier directed by the President (51 FR 37527).

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Country and Product Concerned	Complaint	Disposition or Present Status
Taiwan Beer, Wine & Tobacco (301-57)*	On Oct. 27, 1986, the President determined that acts, policies and practices of Taiwan regarding the distribution and sale of US beer, wine and tobacco products in Taiwan are actionable under Section 301 (51 FR 39639). He decided to take proportional countermeasures so long as Taiwan continues these practices, and directed the Trade Representative to propose appropriate and feasible actions.	On Dec. 5, 1986, Taiwan agreed to cease the unfair practices complained of. As a result, USTR announced that no retaliatory action would be proposed as previously directed by the President (51 FR 44958).
Canada Softwood Lumber (301-58)*	On Dec. 30, 1986, the US and Canada concluded an agreement under which the Department of Commerce terminated a pending countervailing duty investigation (based upon withdrawal of the petition) after Canada agreed to impose a tax of 15% ad valorem on exports of certain softwood lumber products to the U.S.	Pending Canada's imminent imposition and collection of that tax as agreed, on Dec. 30, 1986, the President proclaimed--under Section 301 authority--a temporary additional duty of 15% ad valorem on imports of Canadian softwood lumber products (52 FR 229). On the same date, as the necessary predicate for the exercise of Section 301 authority, he determined that Canadian practices regarding the federal and provincial governments' terms and conditions for the harvest of stumpage (standing timber) were unjustifiable or unreasonable and a burden or restriction on US commerce (52 FR 231). Effective Jan. 8, Commerce suspended the import duty based on the Secretary's determination that Canada has begun to collect the export surcharge on exports to the US of certain softwood lumber products (52 FR 1311). On May 26, 1987, the Government of Canada passed legislation providing for this tax.

Country and Product Concerned	Complaint	Disposition or Present Status
India Almonds (301-59)	The California Almond Growers Exchange filed a petition on Jan. 6, 1987, alleging that India's licensing requirements and steep tariffs on almonds are actionable under section 301.	On Feb. 20, 1987, USTR initiated an investigation and requested consultations with India (52 FR 6412 and 7057). The US consulted with India under GATT Art. XXIII:1 in June and September. USTR requested the establishment of a panel under Art. XXIII:2 at the GATT Councils in July, October and November. The US also raised almonds issues in the full consultations with India held in the GATT Balance of Payments Committee in October. In November 1987, the GATT Council agreed to the establishment of a panel. In May 1988, a satisfactory bilateral settlement was reached and USTR terminated the investigation (53 FR 21757). The Indian Government established a separate quota for almonds, which increases access to that market, to the satisfaction of US industry. Moreover, India agreed to eliminate the quota in three years if its balance of payment position improves as specified in the Agreement. India also reduced and bound its tariff for shelled almonds and bound its tariff on unshelled almonds.
EC Third Country Meat Directive (301-60)	On July 14, 1987, the American Meat Institute, US Meat Export Federation, American Farm Bureau Federation, National Pork Producers Council and National Cattlemen's Association filed a petition complaining of the EC's Third Country Meat Directive as a violation of GATT Art. III and an unjustifiable, unreasonable or discriminatory practice that burdens US commerce.	On July 22, 1987, USTR initiated an investigation and requested consultations with the EC (52 FR 28223). The US consulted with the EC twice under GATT Art. XXIII:1, in September and November, 1987. USTR requested the establishment of a panel at the GATT Councils in October and November, but the EC blocked it. The EC acquiesced to that request at the December GATT Council. Since then, the EC has taken steps to provide access for a number of US meat packers.

Country and Product Concerned	Complaint	Disposition or Present Status
Brazil Pharmaceuticals (301-61)	On June 11, 1987, the Pharmaceutical Manufacturers Association filed a petition complaining of Brazil's lack of process and patent protection for pharmaceutical products as an unreasonable practice that burdens or restricts US commerce.	On July 23, 1987, USTR initiated an investigation and requested consultations with Brazil (52 FR 28223). Consultations were held on Feb. 29, 1988, and additional discussions resulted in no resolution. On July 21, 1988, the President determined Brazil's policy to be unreasonable and a burden and restriction on US commerce, and he directed USTR to hold public hearings (See 53 FR 28100 and 30894) on certain products exported from Brazil. Hearings were held September 8-9, 1988. On October 20, 1988 the President used section 301 authority to proclaim tariff increases to 100 % ad valorem on certain paper products, non-benzenoid drugs, and consumer electronics items, effective October 30, 1988 (53 FR 41551). On February 21, 1989, the GATT Council established a dispute settlement panel to examine the consistency of the U.S. measures with GATT.
EC Hormones (301-62)*	On Nov. 25, 1987, the President announced his intention to raise customs duties to a prohibitive level on as much as $100 million in EC exports to the US This action was in response to the implementation scheduled for Jan. 1, 1988 of the Animal Hormone Directive. Without valid scientific evidence, this directive would ban imports of meat produced from animals treated with growth hormones. However, the President said he would suspend increased duties if EC member states continued to allow such imports for a 12-month transition period.	On Dec. 24, on his own motion, the President proclaimed but immediately suspended increased duties on specified products of the EC (52 FR 49131), pending EC implementation of its Directive. He delegated authority to modify, suspend or terminate the increased duties (including to terminate the suspension of such increased duties) to the Trade Representative. The EC implemented its directive on January 1, 1989. In response, the USTR terminated the suspension of the increased duties, effective January 1, 1989, with some modifications (53 FR 53115). The US and EC agreed on January 12 to allow a grace period for goods exported, or meat certified for export, prior to January 1, if they entered before February 1 (54 FR 3032). On February 18, the US and EC established a task force of high-level government officials to seek a resolution to the hormones dispute by May 4, 1989.

Country and Product Concerned	Complaint	Disposition or Present Status
EC Oilseeds (301-63)	On Dec. 16, 1987, the American Soybean Association filed a petition complaining that the EC's policies and practices relating to oilseeds and oilseed substitutes nullified and impaired benefits accruing to the United States under the GATT and, specifically, are inconsistent with a zero tariff binding agreed to by the EC. ASA alleged that the practices also are unjustifiable, unreasonable and burden or restrict US commerce.	On Jan. 5, 1988, USTR initiated an investigation and requested consultations with the EC (53 FR 984). The US consulted with the EC several times, both informally and formally, under GATT Art. XXIII:1. The EC blocked the US request for a panel at the May 1988 GATT Council, but acquiesced at the June 1988 Council. However, the EC delayed composition of the panel for several months with a number of procedural maneuvers.
Korea Cigarettes (301-64)	On Jan. 22, 1988, the US Cigarette Export Association filed a petition complaining that the policies and practices of the Korean Government and its instrumentality the Korean Monopoly Corporation unreasonably denied access to the Korean cigarette market and were a burden or restriction on US commerce.	On Feb. 16, 1988, USTR initiated an investigation and requested consultations with the Government of Korea (53 FR 4926). The USTR signed an agreement with Korea on May 27, 1988, providing open, non-discriminatory access to the Korean cigarette market. Based on this agreement, the investigation was terminated on May 31, 1988.
Korea Beef (301-65)	On Feb. 16, 1988, the American Meat Institute filed a petition alleging that the ROK maintains a restrictive licensing system on imports of all bovine meat, in violation of GATT Article XI, which is unjustifiable, unreasonable, and burdens or restricts US commerce.	On March 18, 1988, USTR initiated an investigation (53 FR 10995). The US had already consulted with the ROK under GATT Art. XXIII:1. On May 4, 1988, GATT Council established a panel under Art. XXIII:2. Australia was also authorized a panel on the same matter, so consultations on panel selection included coordination between two panels. The first panel meeting was November 28, 1988; the second meeting was January 20, 1989.

Country and Product Concerned	Complaint	Disposition or Present Status
Japan Citrus (301-66)	On May 6, 1988, Florida Citrus Mutual, et al. filed a petition alleging that Japan's import quotas on fresh oranges and orange juice contravene GATT Article XI, and their domestic content mixing requirements violate Art. III:5.	On May 25, 1988, USTR initiated an investigation. The US had already consulted with Japan under GATT Article XXIII:1, and a panel under Art. XXIII:2 had been authorized by GATT Council on May 4, 1988. Intensive settlement negotiations followed, and on July 5, 1988, a bilateral agreement was reached to settle the issue. Among other issues settled, import quotas on fresh oranges will end April 1, 1991, and on April 1, 1992 for orange juice; the blending requirement will be phased out in 1988-89 and eliminated as of April 1, 1990. Based upon this agreement, the citrus industry withdrew its petition and USTR terminated the investigation on July 5, 1988 (53 FR 25714).
Korea Wine (301-67)	On April 27, 1988, the Wine Institute and the Association of American Vintners filed a petition complaining of policies and practices of the Korean Government that unreasonably deny access to the Korean wine market and are a burden or restriction on US commerce.	On June 11, 1988, USTR initiated an investigation (53 FR 22607) and requested consultations with the Korean Government. Consultations were held October 11-12 in Washington and October 25 in Seoul. Further consultations finally resulted in an agreement, reached on January 18, 1989, in which Korea agreed to provide foreign manufacturers of wine and wine products non- discriminatory and equitable access to the Korean market. The investigation was terminated on January 18, 1989.
Argentina Pharmaceuticals (301-68)	On August 10, 1988, the Pharmaceutical Manufacturers Associations (PMA) filed a petition complaining of Argentina's denial of product patent protection for pharmaceuticals and discriminatory product registration practices. PMA alleged these practices are unreasonable and discriminatory and burden or restrict US commerce.	On September 25, 1988, USTR initiated an investigation (53 FR 37668), and requested public comments in order to request consultations with the Argentine government. Initial consultations were held in Buenos Aires in December 1988.

Country and Product Concerned	Complaint	Disposition or Present Status
Japan Construction-related Services (301-69)*	Section 1305 of the Omnibus Trade and Competitiveness Act of 1988, enacted August 23, 1988, required the USTR to initiate an investigation regarding the acts, policies, and practices of the Government of Japan, and of entities owned, financed, or otherwise controlled by the Government of Japan, that are barriers in Japan to the offering or performance by US persons of architectural, engineering, construction and consulting services in Japan.	USTR initiated an investigation on November 21, 1988, and requested public comment by December 20, 1988 (53 FR 47897). Consultations with Japan were requested, to be scheduled following a public hearing. A hearing will be held March 13, 1989 (54 FR 2033).
EC Copper Scrap (301-70)	The Copper and Brass Fabricators Council, Inc., filed a petition on November 14, 1988, alleging that export restrictions on copper scrap and zinc scrap maintained by the European Community, the United Kingdom and Brazil violate the GATT and burden and restrict US commerce. On December 27 petitioners withdrew the allegations regarding Brazil and zinc scrap.	USTR initiated an investigation on December 29, 1988, involving the practices of the EC and UK. Comments were requested and a public hearing was held on January 27, 1989 (54 FR 338). USTR advised the EC of its intention to schedule GATT consultations after the public hearing. On January 25, 1989, USTR informed the UK that the investigation would proceed only as to the EC, since the UK had represented that its regulations merely implemented the EC export controls and did not constitute separate restrictions.
* Denotes actions initiated without having received a petition.		
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Taiwan Export Performance Requirements (307-1)*	On March 31, 1986, at the direction of the President, USTR self-initiated the first investigation under section 307 of the Trade and Tariff Act of 1984 concerning export performance requirements in the automotive sector (51 FR 12008).	USTR requested written public comments, and consulted with Taiwan authorities in June, August and September. On Sept. 12, an agreement was reached under which Taiwan would lift existing automotive export performance requirements (EPRs) by Summer 1987; apply no new automotive EPRs; and grant the right for existing auto investments to be expended without new EPRs. Based upon this agreement, USTR terminated the investigation (51 FR 41558).

Chairman GIBBONS. Thank you for your statement.

Before I go on with the questioning, I would like unanimous consent to place Mr. Pickle's statement in the record immediately following Mr. Schulze's statement. Without objection it is so ordered.

You have talked about many of the problems that drive the decisions in your office. One of the ones that I would like to bring up because I believe it is the primary driving force is the relationship between the Federal fiscal deficit—and I am talking about our chronic fiscal deficit that goes all the way back to 1969 and our trade deficit. What impact do you think the chronic Federal fiscal deficit has upon our trade deficit?

Ambassador HILLS. The Federal fiscal deficit, Mr. Chairman, is evidence that we are spending too much in the public sector. We are also saving too little in the private sector, and our deficit demonstrates that we are saving too little in the public sector. The gap between our savings and our spending accounts creates our trade deficit.

Chairman GIBBONS. Well, do you see any way we can cure our trade deficit without first curing our Federal fiscal deficit?

Ambassador HILLS. Well, certainly we must achieve correction of the macroeconomic factors; the deficit is a symptom of the dislocation that exists. Eliminating the deficit is extraordinarily important to the health of our trading picture.

If we were to increase our savings and decrease our spending we would have a much better handle on the health of our trading situation.

We could also do a great deal in terms of investment to enhance our productivity of both in terms of education and in capital improvement. But, as the macroeconomic factors will always have an overwhelming influence on the health of our trading. Right now we have a deficit primarily because of those macroeconomic factors.

Chairman GIBBONS. Now, one of the factors that you are going to face in this negotiation that is ahead of us, probably the most ambitious negotiation that we have ever undertaken in the trade area, is the human resources to carry it out.

In my opening statement I made some reference to your being a lean agency. How many people are you going to need to effectively carry out the responsibilities that have been delegated to you under this system?

Ambassador HILLS. We have not pressed for a substantial increase in the personnel at USTR. We anticipate using our usual procedure of tapping talent throughout the executive branch. We frequently borrow people or create interagency task force where we can task out jobs where we have inadequate personnel.

As you know better than most, the USTR's mission is to coordinate and to articulate this Nation's trading policy and to negotiate the goals we identify. We try to work very closely with all of the agencies within the executive branch and with Congress in order to carry out our mission.

So, I think we can stay, to use your words, "lean and mean" and accomplish the goals that you have set for us. Of course, if we fall short, we will in the course of our consultation come back and talk to you about it.

Chairman GIBBONS. Well, I asked that question now because I want you to be thinking about it seriously during the rest of your tenure because I expect to come back to you in a few years from now and say if you had to do it over again what would you do?

I am concerned that we have been preoccupied with cutting down the size of your agency and keeping it small. And yet, we have given you responsibilities that are tremendous in size. I do not know whether you or the agency or all of us together are capable of attaining the goals that we set for ourselves with the resources we have provided to do it.

If at any time your agency seems to be overstressed, I wish that you would come to the Congress and tell us that we are either going to have to modify the goals or give you some more qualified people to do the job because when I look at the scope of the negotiations that you are undertaking. I frankly do not know how in the world you are going to accomplish it with the staff you presently have, even borrowing from other agencies.

Now, in that regard I mentioned to you earlier to take a look at a book that was published by one of your predecessors called "A Preface to Trade." It was really a primer published during the last part of an earlier Democratic administration talking about your office and how it was organized and how it related to the rest of the Government.

I think an update of that and the republication of that information would give the Congress and your workers in the executive branch a better feeling as to how we expect you to operate. It is sort of a proclaimed Constitution of what the role is of your office and all of that. If you do not have a copy of it, I will be glad to dig one up out of my files somewhere and provide it for you.

Ambassador HILLS. Thank you. I am told by my colleagues that they do have it. We will take a look at it, and certainly try to respond by updating it.

Chairman GIBBONS. Now one of the other things that I want to ask you about is the role of the private sector in these negotiations.

This whole area of trade is so large now, that it is impossible for Government to provide all of the input and intelligence that is needed to guide the negotiations.

What provision are you making for the employment of the private sector to feed information to you, or to glean information from other sectors of the Government to keep up on such things as Europe 1992, or the Uruguay round, or any of these other things that we have thrown in your lap?

How are you going to relate to the private sector? How are you going to get information from them? How are you going to correlate it, and turn it into a useful, productive tool?

Ambassador HILLS. We have a very good relationship with more than 1,000 advisers, divided into a number of groups to report, help, and advise us, and we are very proud of the work product that they bring to us, and the consultation that they provide.

The recent report that was produced by the Advisory Committee for Trade Policy and Negotiations on Japan is an illustration. You mentioned EC 1992. We have a number of groups in the private sector focusing on that subject.

With respect to the Uruguay round we have had groups of private citizens and congressional delegations going to Geneva, and staying there and helping us on all of the topics. We have been gratified by the analysis and assistance that they have given us.

So USTR works very, very closely with the representatives of our private sector in various industries.

Chairman GIBBONS. I think there is a great role out there. Not only can they provide you with information, and relatively up-to-date information which is sometimes very difficult to get out of our other governmental agencies, but they do provide us the political background by which, when we get one of these negotiations completed, we can get it ratified, and without that, you know, no matter how good the game is, it is going to be lost if we do not have the political support at the end.

Let me lastly talk about multilateral approaches and bilateral approaches.

You will hear from various members of our committee, including me, the merits of going one way or another, and I would like to tell you what I believe is a proper role and see what you think is a proper role.

In the next 2 years when we have the Uruguay round ahead of us, I believe that the most appropriate role is to follow it and make it the highest priority, and to get as much done in that multilateral negotiation as is possible. At the same time, keep holding back on your two little weapons, the possibility of bilateral negotiations, and urge and demonstrate that quicker or better solutions may be possible if we start off on bilateral approaches.

I do not want to undertake any large bilateral approaches while we are concentrating on the multilateral. But I do not want to lose them as a tool, and I do not want to discourage them, nor do I want to thrust them ahead of the multilateral negotiations.

What are your observations on that?

Ambassador HILLS. I agree with you, Mr. Chairman. We have, as you pointed out earlier, an enormous task in successfully completing the Uruguay round. It is the largest and most ambitious round that has been attempted in the history of GATT negotiations.

Were we to accomplish all of our goals in each of those 15 negotiating groups, we would have achieved a great deal and eliminated a great number or frictions we have in our bilateral relations.

In the next 2 years, because of the need to focus hard on the multilateral success of Uruguay, that is where we will put the majority of our resources.

Now bilateral arrangements can be helpful. I think that our bilateral free trade agreement with Canada, is working out. For example, its dispute settlement mechanism, shines an illusive light so that our multilateral partners can see, over time, that yes, this approach does work.

Of course, I may be a little premature, because we have not had all that much experience with our Canada Free Trade Agreement, but conceptually that is a fair hypothesis. But I could not agree with you more, that in the near term, the next 2 years, we really must concentrate on the 15 negotiating groups that hold so much promise for the world's trading picture.

Chairman GIBBONS. Well, thank you very much.

Before I go to Mr. Rostenkowski, and then to Mr. Schulze, I want to say that it is unusual to have the chairman of your committee here as a junior member of this committee, and I want you to know that I enjoy the relationship. [Laughter.]

It is a great strengthening of my ability to get things done. He has been a member of the Trade Subcommittee ever since it has been created and he has been an active member of it, and while he allows me to wield the gavel and make the mistakes, I want you to know that he is awfully important in all this operation.

I am proud to have him sitting at my right hand for this particular occasion.

Chairman ROSTENKOWSKI. Well, thank you, Mr. Chairman.

I enjoy very much working in this area, Madam Ambassador, and I would like to make some observations and then submit some questions, not necessarily to be answered today because I understand you have not as yet gotten your house in order.

I would like to go through my thoughts, and then, if there are some questions that you can answer, or answers to some questions in the future that you would like to submit in writing, I would appreciate it.

The current program on the steel VRA's went into effect in October of 1984 for a period of 5 years, Madam Ambassador. Both the statutory authority and the 20 VRA agreements expire on September 30, 1989.

Mr. Bush wrote a letter on November 4, 1988 to Senator Heinz supporting an extension of the program while pursuing an international consensus on eliminating unfair trade practices.

The administration has not yet, however, fleshed out the specifics of its proposal. I am sure you are aware that our colleague, Mr. Murtha, has introduced legislation, H.R. 904, a bill simply to extend the current VRA program without any further modifications, for an additional 5 years.

The bill has 126 cosponsors, 10 of which are on the Ways and Means Committee.

The domestic steel producers, and steel workers, the majority of domestic carbon-steel producers, specialty-steel producers, and the U.S. Steelworkers all support the Murtha bill.

However, there is a coalition of domestic steel users, and manufacturers who are also steel users, and they have been primarily concerned—and I might add that it is under the leadership of the Caterpillar organization—to oppose any extension of VRA's.

The group argues, Madam Ambassador, that steel VRA's have increased the price of steel by about 15 percent, which has increased their costs of production and adversely impacted their international competitiveness.

They also argue that the domestic steel producers have recovered from their previously injured condition and are now healthy and profitable, and no longer need the protection.

Referring back to the letter of President Bush, he points out that one of the key trade policy goals of the Bush administration will be to achieve an international consensus on eliminating unfair steel trade practices, and pending that, I can assure you of my intention to continue the voluntary restraint program after September 30, 1989.

Now my question is this. Does this statement, Madam Ambassador, reflect the current Bush administration's trade policy with respect to steel, and, if it does, would you be kind enough to elaborate for us on some of the specific elements of this trade policy.

Ambassador HILLS. Well, Mr. Chairman, that statement expresses the broad framework of the Bush administration on steel policy.

It is a fact, that we still have prevalent in the world today, dumping practices and closed markets. The President spoke well when he stated that were we to have an international consensus to rid ourselves of these unfair practices, we would be better off than to have permanently established the VRA's.

Now the facts that you recite by the producers are quite accurate. They worry that if there is not an extension of the VRA's, the unfair practices will resume.

And you are also correct, that the users feel that the producers have had, to date, adequate time to adjust to market conditions; that their profits are up; that their capacity is about 89 percent, and that now is the time to think about removing the VRA's.

I have formed a working group within USTR which will in turn be working with the other agencies, consulting with Congress, consulting with both the producers and the users, in order to put flesh on the framework statement on steel policy contained in then-Candidate Bush, now President Bush's letter to Senator Heinz.

And this is one of the tough areas where emotions run high, but we need to clarify the policy, and there may very well have to be some thinking about how long these VRA's continue, but that will be the agenda for the task force. We will be consulting with you and with the other cosigners of this bill, who would simply extend.

Chairman ROSTENKOWSKI. Well, not for discussion this morning, Madam Ambassador, but I would like to have, in written form, if it is available, your conclusions on such a consensus, and I would like to know whether or not it would be developed on a sector-specific multilateral basis. You know, such as we have in textiles.

Would it be done on a bilateral basis with each separate steel-exporting country? Would it fall under any of the discussions under way in the Uruguay round?

I would also like you to describe for us what, if any, procedure has been established by the administration to develop the specific elements of the steel trade policy.

And I would also appreciate the administration's directing us, or giving us some indication as to what they intend to submit to the Congress and details of any extension of the steel program, along with any relevant legislative proposal you will have.

And if so, when can we expect to receive such a proposal?

I just point this out, Madam Ambassador, because there is a great deal of attention being directed in this area, and I think that the committee would like to absorb that before we make any decisions. Thank you, Mr. Chairman.

[The information of Ambassador Hills follows:]

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

At the hearing of the House Ways and Means Trade Subcommittee on February 28th, you asked me to answer a series of questions about our policy on the Steel Voluntary Restraint Agreements that will expire later this year. I am pleased to enclose the attached responses to your questions.

Sincerely,

Carla A. Hills

CH:msg

Enclosures

ROSTENKOWSKI QUESTIONS

Q. On November 4 of last year, then-Vice-President Bush wrote a letter to Senator Heinz indicating that

> "one of the key trade policy goals of a Bush Administration will be to achieve an international consensus on eliminating (unfair steel trade) practices, and, pending that, I can assure you of my intention to continue the voluntary restraint program after September 30, 1989."

Does this statement reflect the current Bush Administration's trade policy with respect to steel? If so, would you elaborate for us on some of the specific elements of this trade policy?

A. The letter from then-Vice-President Bush to Senator Heinz outlines in broad terms the objectives of this Administration: to seek an international consensus on eliminating unfair trade practices, some extension of voluntary restraint arrangements in the absence of an international consensus, continued modernization of the steel industry through reinvestment of net cash flows, and opening of steel markets abroad.

The focal point of our efforts to achieve an international consensus will be the elimination of subsidies and other trade distortive forms of government supports. Massive state intervention in the world steel industry over the last decade has been the source of global overcapacity and economically irrational trade flows.

In addition, our major competitors need to open their markets. The combination of closed markets and massive state supports led to the United States becoming the world's dumping ground for steel.

Since an international consensus may not be easily achieved before the end of the current voluntary restraint program, VRAs may have to be extended. The Administration is reviewing proposals to modify the program, particularly those designed to minimize potential adverse effects of VRAs on steel consumers.

Q. As the Administration's chief trade negotiator, can you tell us how you will approach developing an "international consensus" on the elimination of unfair trading practices in the steel sector? Would such a consensus be developed by a sector-specific multilateral agreement such as we have in textiles; would it be done on a bilateral basis with each separate steel-exporting country; would it fall under any of the discussions underway in the Uruguay Round?

A. The Administration is currently developing its strategy on how to achieve an international consensus covering unfair trade practices. All three of the options you mentioned -- a multilateral agreement, bilateral agreements, and on-going Uruguay Round negotiations -- will be given careful consideration. We will need to explore with other major steel producing and trading countries our objectives for an international consensus and will be consulting with Congress and industry as our strategy develops.

Q. Can you describe for us what, if any, procedure has been established by the Administration to develop the specific elements of its steel trade policy?

A. Steel trade policy will be developed through the interagency channels normally used for the development of trade policy. After the initial staff work and analysis are completed, recommendations and/or options will be finalized by the sub-Cabinet level Trade Policy Review Group, chaired by the Deputy USTR. I would expect that the issue will then be considered by the Economic Policy Council. In developing those options and recommendations, USTR also will be consulting with the Industry Sector Advisory Committee for Ferrous Metals (ISAC 7), various associations of steel producers, and associations of steel consumers as well as Congress.

Q. Does the Administration intend to submit to the Congress details of any extension of the steel program along with any relevant legislative proposal? If so, when can we expect to receive such a proposal?

A. USTR intends to consult with Congress throughout the Administration's decision-making process. In the course of these deliberations, we will be examining the timing and content of any legislation that may be necessary.

Chairman GIBBONS. Thank you. Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

Madam Ambassador, again, welcome, and I think I will follow right along the line of the chairman's questioning, if I may.

The main thrust of his question was what, and I guess mine would be when. The last time we negotiated the VRA's around the world it took an awful lot of your time—and when I say your time, I mean your staff, your office, your personnel, and I presume it will take a fair amount of time, again, to go through that whole procedure.

So I think time is of the essence, and that your initiation of this process is fairly important, and so my question is, have you given any thought to when you will start the process with other nations?

Are you going to wait until you get that report from the task force? Well, let me back up. I guess the first question is: When have you asked the task force to report? And then, are you going to take action before they report or are you going to wait until you receive their recommendations?

Ambassador HILLS. I hope that the working group will have a plan of action by the end of March, but the process of the working group requires consultation with the private sector, Congress, the various departments and agencies within the executive branch and our steel exporting colleagues in the community of nations.

Some nations do not want to continue the VRA's, and have so alerted us. So they are dealing themselves out. As you know, there are 20 agreements with 29 countries, and we are trying to analyze what the best arrangement will look like.

And so we are aware that the current VRA's expire on the 29th of September, and so you are right, time is critical, but unthought-out action is not the remedy.

So that is why we launched this working group which will include consultation, and I would expect that by the end of March, we will be speaking with you rather often to tell you of where we are, and what course of action that we will be pursuing.

We are aware that the legislation has to be drafted, that we have to find a legislative date and to get it introduced and passed. But this subject has such a good deal of focus. I think that with the number of cosponsors on the extension legislation we will be able to meet our deadline.

Mr. SCHULZE. I guess it would be difficult to ask the task force to keep an eye on this at the same time, but as you and I have discussed the broader picture, are the steel problems multiplied by commodities throughout the world, and it may not be an immediate problem today, but, in my opinion it is going to be, eventually, whether it is next year or the year after that. Within the next decade we are going to have similar problems.

And so I would hope that they would keep one eye on the broader picture and say, if we solve this problem how can we translat that into a broad policy which will not disrupt markets around th world, will achieve the policy goals which we wish to achieve.

So perhaps when this task force is through, we can have a little meeting and discuss how their recommendations can be implemented, not right now, but some day, to other areas.

Let me also say I think this hearing on policy is a great idea, and I presume it will continue on a regular basis, whether it is in a formal hearing or not, or whether we are just sitting down and talking.

I think it is essential that we go through this process of discussing policy and I appreciate it very much.

I guess you are also aware of the historic problems with steel and the enormous world overhang in production, and all of the strain and problems we went through to create the present policy which, certainly, although it is not perfect, is better than anything else we have had in the past.

So, we will work together to see that we can accomplish those things.

Now, in your testimony you alluded to the request-offer method of improving market access. I have, in the past, sort of coined the phrase, symmetrical access, because reciprocity became a code word for protectionism. We are not talking about protectionism. We want symmetrical access.

If there is a nation which has large banks, and those banks have access to our banking structure, and all we want is symmetrical access. We want them to give us the same type of access to theirs.

And I am heartened by your statement that you are going to use 301, super 301, the variety of 301 applications to achieve those goals, and perhaps we can achieve these goals without you having to pull out that crowbar and use it either to pry doors or perhaps to rap the mule between the eyes.

So I am heartened by that as well. If you would give us a little more of what you believe, and how you would use the request-offer method, I would appreciate it.

Ambassador HILLS. The request-offer method is a method whereby we are trying to negotiate down protections. In the Tokyo round there was a formula, and it was simply a flat formula of reducing tariffs by 35 percent.

This request-offer enables us to make a request and have our trading partner respond so that the aggregate may be at the formula level, which is what we are aiming to achieve. But the individual items may vary. That provides, we think, for us, necessary flexibility. It is not a modality that is being forced on all the players. There is in effect an option. If the formula approach works better for others, fine; if the request-offer approach is preferable, that is fine, too. So it is a flexible method.

Mr. SCHULZE. Well, that sounds very interesting and I hope that it works. There is another question that is easy to ask but perhaps might be difficult to answer.

You mentioned Europe 1992. I have great concerns about Europe 1992. I think it is going to be a radical change in world trading. I would hope that it would not be. But can you assure us that your Department is watching every nuance and subtlety of Europe 1992 and will keep us abreast of what is going on as you perceive it?

Ambassador HILLS. Absolutely. We are watching 1992 very, very carefully. The executive branch as a whole is also watching this enormous transformation, which is historic, and really quite remarkable, very carefully.

The Economic Policy Council has a task force that includes most Government departments and the regulatory agencies, to look at different aspects of 1992 as it unfolds.

But we see an opportunity here: This single market will bring together 320 million people, and have an aggregate domestic economy of $4 trillion. That offers an economic opportunity for our farmers and our merchants here in the United States. So we want to work with the European Community as it develops its "one, economy," and we want them to keep their markets open because we believe—as do the leading economists—that that will be to the net benefit of all nation's across the globe.

Mr. SCHULZE. Madam Ambassador, I thank you, and I also would just add as a footnote, that I was heartened by the chairman's statement about bilaterals and multilaterals, and I think that is exactly the right perspective, that we have got to use that approach as a tool to negotiate in our favor, and I think your response was right on the button.

Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Jenkins, before I go to you, let me say this. I am afraid the impression is getting out here that this is a steel hearing.

Mr. JENKINS. I am going to change that.

Chairman GIBBONS. You are going to change that. Let me say, I guess primarily for the benefit of the news media, that I will not hold up the legislation by use of my chairmanship here even if I could. But I disagree with the VRAs. I do not think there ever was a need for them.

I think that what they have done to the American economy since they have been in place has been horrible. We have got to remember there are five times as many people employed in using overpriced steel as there are in producing that steel, and I do not know yet, and I have never been convinced why the steel industry cannot use the same trade laws that everybody else in the United States subscribes to.

And so having said that, I want you to understand that I am a real friend of the VRA's and with friends like me they do not need any enemies.

But I will not try to hold them up; it has never been my policy, where I disagree with someone, to try to abuse the legislative process.

As far as 122 cosponsors are concerned, you can get more on a Mother's Day resolution than that, and it would have about the same impact. It would not improve their love toward their mother. There are 122 people right here who will sign anything, including—well, I will just drop it at that point. [Laughter.]

Anyway, we will get to steel in time, but I want the steel industry to know, as far as I am concerned the burden is on them, and real heavily on them.

I think that they have taken unfair advantage of their other users of that product whose jobs are just as important to the United States as theirs, and I see no reason why they cannot use the same processes that everyone else uses.

And if they cannot, then I am willing to change the law so that they will be able to avail themselves of the same processes.

I apologize to you, Mr. Jenkins, for having encroached on your time. I will not deduct it from your time, so just take as much time as you want.

Mr. JENKINS. Thank you, Mr. Chairman.

Madam Ambassador, I met this morning with a corporate citizen from my district, a Fortune 500 company that has increased exports 10 to 20 percent every year for the last several years.

And they inform me that one of the things that they have had to rely upon in order to compete with other world-class competitors has been the use of the Eximbank.

What is the attitude of your office as far as the lending authority, not only the guaranteed loans but also, the lending authority of the Eximbank?

Do you think that this is something that we need to keep in place, adequately funded, in order to compete with the financing subsidies that are in existence in other countries?

Ambassador HILLS. Mr. Jenkins, the exporters clearly need financing and some can manage with a guarantee; some need the direct credit. The budget that was submitted by President Bush has made clear that it is not canceling out the direct credit, and my understanding is the Eximbank has started, again, to take applications for direct credit.

Our private-sector banks do a lot in this area as well, and they are providing lending authority to exporters which permits the guarantees to be used when necessary.

Mr. JENKINS. Will this be adversely impacted with the higher interest rates that we are now seeing? Will this be adversely impacted?

Ambassador HILLS. Well, if the interest rates go up, that will impact anyone who is engaged in doing business. I think your specific question was how does the USTR look at the need for exporters to find credit, and of course we are interested in the reliability of credit.

There are a variety of ways in which they can find it, and the Export-Import Bank has been one of the productive ways.

Mr. JENKINS. Well, as I leave this committee room I will be going over to the Budget Committee, where I serve as a member, and we will be taking this matter along with other budgetary matters up.

And do you feel that the Eximbank together with the direct credit portion is a tool that we need in today's world, in assisting our domestic industries in exporting?

Ambassador HILLS. It has been helpful. If I had to choose between the two I might pick the guarantee, but the direct credit certainly has been helpful.

Mr. JENKINS. All right. You indicated in your statement that when you left Montreal your immediate task is to resolve the negotiating frameworks left open. Agriculture, where the European Community has grave concerns as I understand; intellectual property; safeguards and textiles.

And after dealing with each of those, you make the statement that the two outstanding issues from Montreal, the textiles and safeguards, that your target for April is to agree on the framework for the negotiations in the remainder of the Uruguay round.

Now, what exactly are you looking for in the framework for safeguards and textiles?

Ambassador HILLS. In the area of safeguards, we would like to have rules that are as clear as our 201 rules. Those are much stronger than are prevalent in GATT today, and I suspect stronger than most nations are prepared to agree to.

But we think that some definition of rules, the showing of injury, and a time duration is very important. In the area of textiles, the exporting nations would like to deal with ends. We, and I think the majority of importing nations of the developed world would like to deal with means.

What we agreed to at the Punta del Este declaration was that we would negotiate on modalities to bring textiles within the GATT, and I think our difference of opinion has been whether to deal with those modalities in the framework, and then negotiate the end results, or whether to jump right into the ends, like freezing quotas, or dealing with the Multifiber Agreement, and that we are not, as a Nation, prepared to do. We would prefer to deal with the means, or the modalities.

Mr. JENKINS. As we look at the quotas in textiles around the world, our largest suppliers come from the Pacific Rim countries, yet at the same time we see a great need for some countries surrounding us, primarily in the Caribbean Basin, to have some means of obtaining hard dollars for their own purposes, and to increase the standard of living of those countries.

Does the thought of beginning to transfer some of the quotas from some of the other countries that may be higher along on the ladder to the CBI, to the Caribbean Basin countries, have any merit? Are we looking at that possibility?

Ambassador HILLS. It would be transferring per se. We have negotiated a reduction in quotas from some Pacific Rim countries in the recent past. We are very favorably disposed toward strengthening our Caribbean Basin Initiative.

There is a good bit that we can do in our analysis of how to strengthen the Caribbean Basin Initiative, and we are focusing on that now.

Mr. JENKINS. Well, it appears to me that that is a good direction in which we, as a nation, could take a look at, to try to be of some help to the Caribbean area. But my fear, and the fear, obviously, of the domestic textile industry, will be that we will not reduce or restrain the growth in other areas, but simply add to what they perceive to be a burden with increased garments and products in that area coming into this country.

And I would like to simply state, as one member from a textile area, that I believe we ought to concentrate in the Caribbean area somewhat because of the great need there. But at the same time I would like to see some framework developed that we do not exacerbate the problem, but that we could simultaneously reduce or restrain the growth from other areas that are doing much better than the Caribbean area, and I commend you for taking a look at that, to see if we can develop some workable program to accomplish that purpose.

Ambassador Hills. Well, we certainly are, and will, and will look forward to consulting with you on it. It is a complicated area. There are 2,000 bilateral quota agreements.

Mr. Jenkins. Right.

Ambassador Hills. And there are strong feelings on both sides of the quotas, and we are looking at how to enhance the Caribbean Basin initiative.

Mr. Jenkins. Do you know of any legislative tool that your office needs, that you do not presently have, in order to try to assist in turning around the trade difficulties that this Nation is faced with today?

Ambassador Hills. I think we have a full arsenal of tools. It is not the shortage of tools that presents the problem. We may come to you with legislation on some of the subjects we have discussed this morning—steel, textiles and the like—but as far as tools to get the job done, I think we have an ample supply.

Mr. Jenkins. So we have provided the tools, and now it is up to you to do it, is that right?

Ambassador Hills. It is up to us.

Mr. Jenkins. All right.

Ambassador Hills. We cannot do the job at USTR without your help.

Mr. Jenkins. I know you cannot, and without the private sector. But I wanted to be assured that you are not seeking any other authority, or any other appropriation, or whatever, to be able to accomplish what you feel——

Ambassador Hills. At least not in the short term.

Mr. Jenkins. Thank you very much. Thank you, Mr. Chairman.

Chairman Gibbons. We will go next to Mr. Crane and, then, after that, to Mr. Gephardt.

Mr. Crane. Thank you, Mr. Chairman, and I want to express appreciation, Madam Ambassador, for your testimony.

To follow up on this textile question, you indicate that textiles is one of the real sticking points coming out of Montreal. Is it a problem in terms of our denial of access to our market, or the European Community principally denying access to our exporters? Or it is outside the European-United States trading relationship?

Ambassador Hills. I think that probably the lesser-developed world holds the view that they would like to remove quotas imposed on them wherever they are found, and those that impose them, which includes the United States, are not prepared in the framework agreement to talk about the precise ends of the agreement, but would limit the framework agreement to means, that is, the modality by which eventually we would bring textiles within the GATT. So the dispute, which I believe we can resolve, is really looking at the framework agreement, and how it should be shaped to launch future negotiations.

Mr. Crane. Well, the reason I expressed some concern is I have seen that one of the three biggest components of the cost-of-living increase last year, and the year before, was the cost of clothing in this country, and is not the textile industry the most-protected industry we have here at home?

Ambassador Hills. Yes.

Mr. CRANE. And in addition to that, is that not currently costing the average American family somewhere between $200 and $400 a year because of our protectionist policies with regard to textiles?

Ambassador HILLS. Yes.

Mr. CRANE. And is it not also true that at least last year they were reported to be running at 95 percent of capacity, which is all out? I mean, an industry cannot maintain that level of productivity.

Ambassador HILLS. Their plant capacity was high, in the high 80's according to our figures, but certainly very high.

Mr. CRANE. And we have had, as you are aware, a couple of textile protection acts come up on the floor. Fortunately, we had the votes to sustain vetoes, with all due respect to my good friend over here on my right, who very valiantly led the battle for the industry. But the fact of the matter is, it is the American consumer in a form of regressive taxation—because everybody has to wear clothes—that has to pick up the tab on that.

And it seems to me that this is an area that I would hope we might pursue with a view to opening up our markets.

Another thing that you touched upon in your testimony on bilateral initiatives. You indicated that we will pursue vigorously and responsibly the elimination of barriers of our trading partners.

As you know, the chairman and I have introduced a bill to go after a free trade agreement with Japan, but at the chairman's recommendation—and I certainly concurred—we would not pursue this until either the Uruguay round is successfully completed, or the President were to make a determination that there will be no successful completion.

In the meantime, however, with that on the table, it seems that there are a number of areas of disagreement we may have with our Japanese trading partners, that could be addressed within the context, although not deliberately pursuing, a date certain for an FTA with Japan.

That we could say, you know, there are hurdles that at some point we will have to confront, but, in the meantime, let's see if we cannot get most of these out of the way.

It is my intention to introduce an FTA for South Korea, for Taiwan, for Singapore, and Hong Kong, and do those separately rather than a basket of FTA agreements. But I think that as has been indicated here by a number of our panelists up here on the dais, I cannot help but feel that bilateral talks provide some degree of pressure on the Uruguay round multilateral negotiations when you see countries that are willing to start making appropriate concessions with regard to advancing free trade.

And as I say, it does not have to be called an FTA with Japan, but so long as the Japanese know that we are interested—and my understanding is they have indicated an interest in examining the question—we could start reaching interim agreements as we move to that 1991 date.

Would you share that sentiment?

Ambassador HILLS. We are consulting with Japan and negotiating on a variety of issues and some have been quite successful. I know you know about the beef and citrus agreement, and that is all for the good.

I think that the issue that we have to be wary of in talking about a free trade agreement with Japan, is to understand that tariff barriers have been substantially reduced in Japan, and that the largest impediments now are what we call invisible barriers and cultural barriers.

A free trade agreement works best where the culture is relatively similar and the trade is very large, and Canada surely fits those principles.

In Japan, if we go into a negotiation and we agree to lower our visible barriers to Japan, and they promise to do something about invisible barriers, it is impossible to police. It is almost impossible to know.

And some very good commentators fear that we will end up bringing down our barriers and getting nothing in return. So I am not saying that we are opposed to negotiating, or to exploring any kind of opening with Japan. But our trade deficit looms very large. I would like to see results by the Japanese in helping us bring it down through increased imports. I would put the burden on them to bring it down, and I would urge upon them of the benefits that come from opening their markets.

But to enter a free trade with Japan, or something akin to that with them, would not give me same hope for it that I have with respect to the free trade agreement we have with Canada. And I would not want to go to the negotiating table with an openness giving up things, without being sure that we would get something in return, and that is difficult there.

Mr. **Crane**. Well, Madam Ambassador, my understanding is that—and correct me if I am wrong—that Singapore and Hong Kong, for example, are free traders. Would it not be inconceivable to negotiate a free trade agreement in the interim? I mean, they are, relatively speaking, smaller markets by far, but I do not see how—if, for example, we could get a free trade agreement with either one of those trading partners—that that would derail the multilateral negotiations going on in this Uruguay round.

Do you think they would?

Ambassador **Hills**. It is in part a question of resources. We are going to need all of our energy and ingenuity, creativity and stamina to come up with a successful round. Keep in mind, this is the largest round in history, and we have more issues on the table than we ever have since the founding of GATT, and they are tougher issues than those which have preceded.

We simply cannot distract all of those who have votes in the Uruguay round with a notion that they might get something different, better for themselves by not completing the process. And if they all do participate in the Uruguay round, and we are successful, we will get more than we could from a bilateral agreement.

Our difficulties with some of those whom you mentioned—for example, rice with Japan, rice with Taiwan—those issues will be corrected if we get the agricultural plank into the GATT.

Our difficulties with our East Asia trading partners include intellectual property. If we get an intellectual property plank into the GATT, those problems will be removed.

So we know that we will accomplish more across the board, with a greater variety of trading partners, through the multilateral approach, which does not mean that we would never focus on bilateral arrangements. It means that we would look at such possibilities very carefully, and I think between now and the end of the round, we simply could not try to negotiate a new free trade agreement without distracting us and indeed presenting a problem for ourselves to achieving our goal of a successful round.

Mr. CRANE. When you say a successful round, does that extend to agriculture with our European trading partners?

Ambassador HILLS. Oh, yes.

Mr. CRANE. So that would have to be a component of a successful negotiation?

Ambassador HILLS. We are trying very hard to negotiate a framework for agriculture that will rid the world of trade-distorting measures in agriculture, and when we get a framework agreement we will try to achieve greater market access, a reduction of export subsidies, and a reduction of internal subsidies, that tend to distort trade

If we achieve that, it will really be remarkable.

Mr. CRANE. Both domestically and with our trading partners?

Ambassador HILLS. Yes, sir.

Mr. CRANE. I wholeheartedly embrace you, and, good luck.

Ambassador HILLS. Thank you.

Mr. PEASE. Would the gentleman yield.

Mr. CRANE. Yes. I will be happy to.

Mr. PEASE. Given the revelations in the Tower hearings, I would be careful about saying you were going to wholeheartedly embrace the Ambassador.

Mr. CRANE. When we have so lovely an ambassador representing this country in international councils worldwide, I will happily say that I embrace her goals toward achieving free trade, Mr. Pease.

Chairman GIBBONS. All right. Mr. Gephardt, and then Mr. Vander Jagt, and then Mr. Pease.

Mr. GEPHARDT. Thank you, Mr. Chairman.

Madam Ambassador, welcome, and thank you for being here. The first question I have has to do with a process that you are going to be going through on super 301, both listing the countries and the sectors, and the areas that you are going to deal with.

Do you have a process that you are going through now, and could you describe that to us, or give us some indication of how you are going to categorize things, whether it is by country, or by sectors in countries, or how you see it happening?

Ambassador HILLS. We have a process that we are working on with you. We are truly partners in this process that was established by the 1988 Omnibus Trading Act, and, as you know, we are working now on the national trade estimates report.

That report is due April 30, and in that report we are challenged to identify the countries and the products most significant to foreign trade, and the countries that have the highest barriers and the most potential for our export trade.

And we will be consulting with the private sector and with Congress in developing this report that will show where we can get the most productive market opening for our action.

And then, 30 days later, on a very tight timeframe, May 30, we will have to identify those practices that are "priority," and those countries that are "priority," which we take to mean have the most potential for our own exports. And after that report is submitted, 20 days later, on June 20, we will be self-initiating some 301 actions. So that is the process. We will be in close consultation with you.

It is a difficult process because it is not just a matter of addition. That is to say, the quantification of the barriers is a difficult task for our economists and our policymakers. But we are working very carefully on this assignment and we will keep you apprised.

Mr. **Gephardt**. I appreciate that. I know that it is a difficult process and it is hard, for the first time, to make some of these judgments, and I sympathize with the difficulties of going through this for the first time. But I really do believe it is very important and we will spend as much time, and work as hard as we possibly can to assist you in this endeavor.

I hope that as we look at export potential we can also take into account the job impact that that potential will have on the United States. Also, we must look to the need for value-added exports as well as other types of commodities so that we can have the most major impact on the American economy that we can have, which I am sure that is your goal as well. Along that line, I would like to question you a little bit about your initial decision on telecommunications.

You included on the priority lists European Community and South Korea, but did not include Japan, and I understand the reasoning you list in your statement, being that we have some agreements with Japan which we will be reviewing closely, and that led you to not to put them on the list. I understand your reasoning. Let me tell you my concern.

All through the deliberation on the trade bill, when we talked about super 301, and talked about the priority list, I think everyone said and believed that Japan would be on that list as much as any other country.

And my concern is that we passed the wrong message to companies in Japan and to people in Japan, that the pressure is off and that we are totally pleased with the way agreements that we have, and other relationships that we have worked out are being complied with.

To take another industry that is closely related to telecommunications, in the semiconductor industry, the latest figures are not reassuring.

We have a 20-percent goal. By now we should be at about 14 percent penetration of that market. We have now dropped back, as you know, in the last few months, to about 9.6 percent, and it appears to me that at least one of the factors in their movement is the amount of pressure that is coming from the American side. I just want to register with you my concern, that by not putting Japan on the list at this moment, I hope that we are not passing the wrong signal, and I hope that there will be a real strong effort to review the existing telecommunications agreements.

I realize they privatize some of these industries, but clearly, there is a long way to go before we have what we believe to be adequate access to that market. I just want to register that deep concern, that if we send the wrong messages we might not get the kind of behavior change and real effort on their part. And I know it is hard for them to make these changes.

But the pressure has got to be there, I think, to get them made.

Ambassador HILLS. In both sectors we are focusing very, very carefully. We are analyzing what they are doing, and I do not think we are sending any soft signals.

When the Prime Minister was here and met with the President, we had a working lunch. The trade issues were very much in evidence. I have subsequently met with the Ambassador, and met with him 2 days before he went back to Japan for the funeral.

The disappointments that we feel in some of the areas you have mentioned were clearly communicated. They understand what our concerns are. I think that there is certainly no belief on their part that these are not indispensible ingredients for a healthy trading relationship.

Mr. GEPHARDT. I appreciate that. I want to commend you for your decisions and work with Brazil on intellectual property, and I know from a previous meeting with you that you have been struggling, as we all do, with how and when to take retaliatory actions, and whether or not that complicates our long-range goals.

And I think those are very troubling and frustrating questions, but I think that we have to be willing, when it makes sense, and when it is appropriate, and in a limited way, to take actions when we just are not finding any other way of getting a result.

And I think you are doing the right thing, and I want to encourage you in that, and compliment you for taking a strong action when it really should have been taken.

I would like to end with a more philosophical question that I have had a great deal of trouble with, and I am sure you are, and will, as we go along.

And that has to do with the whole problem of the difference in structure between our economy and some other economies, especially in the case of Japan, and certainly in other cases as well.

As I understand in the ACTPN report, they begin asking whether or not we should throw out 301 in a lot of these things that may not be particularly useful instruments, where there is a tremendous difference in market structure, and that we should just, at least in an interim period as we did in the semiconductor agreement, go to what some call managed trade, to just try to begin to break down barriers and to change attitudes, and change market behavior.

I would like to know what you think about that. Is that what we are going to have to do in some cases? Is that the kind of thing that we are going to have to approach as we try to deal with these problems?

Ambassador HILLS. Managed trade means that someone is managing it, and we have found that there is a greater growth of trade pushed by market force then by a bureaucratic hand. We are willing to look at setting goals for the market, but basically, we would like to have access to markets and let markets work; to remove barriers to free markets, and that is our basic goal. In some instances, such as semiconductors we have talked in terms of results. Other cultures have not approached achieving the results in precisely the way we do and, have tried to manage their trade to achieve their goals. We do not think it has achieved for them as positive a result, as if they would have achieved by opening their markets. So, you do ask a philosophic question. We do want results. At the same time, we want good results that come from the pressures of the markets. We review all factors. We will consult with you on the appropriate approach to take. I have the ACTPN report being studied by internally and it will be read by an interagency task force. I think there are many good suggestions in that report, but it is a complicated question. It is not a yes or no question.

Mr. GEPHARDT. My great worry and concern as it is I am sure yours, is that in some of these areas, the differences in structure are so great that it is hard to know even how to begin to create a level playing field to bring the barriers down. I recommend to you some testimony by David Hale before the Joint Economic Committee about a week ago about the problems he foresees in the financial services markets—banks, stock exchanges. Because of the difference in structure and in the way our market and the way the Japanese market is set up, the relationships between the government and the private sector and within the private sector are simply not allowed under our laws. I've talked to our people in our semiconductor industry about this. They really begin to doubt, because of the difference in our antitrust laws, and because of personal and corporate relationships between ourselves and Japan that we can ever increase market opportunities. Despite our companies and leverage they doubt that we can truly compete on any kind of a level playing field. You consider the fact that in the automobile industry, for instance, in Japan, on cars made in Japan, the purchase of foreign semiconductors is about 1 percent. In the United States our companies do about 60 percent of the business to American companies, and we sell about 60 percent of the semiconductors to European automobile manufacturers. And, you can go on and on and on with other examples. You begin to see the intractable nature of the difficulty in some of these barriers. They really come from market structure, and I think what we have got to grapple with, deal with, and talk about is how we penetrate those markets and do something about opening them and getting real change. I do not think America is prepared to be like Japan. I do not think Japan is prepared to be like America. I think what we have to figure out is what the middle ground is, at least in transition, as we try to move to a time when we will be more alike.

Ambassador HILLS. But Japan does not have to be like America, and America does not have to be like Japan. We can achieve success. Look at the opening of the market that came in the areas of beef and citrus, and there were those who thought that could never occur, and that is a real potential for the cattlemen in America and for the citrus growers. In the area of services, look what has occurred in Korea—insurance. It was said that our insurers could never establish a business in Korea, and we now have had a proliferation of agreements so that we have a number of American insurance companies active there. Of course, it is going to be difficult, and it is ever so much more difficult where cultures differ, but the market will work. It is not just the economic learning in this country that teaches that the whole trading system will be better off if markets are open and there is market access. This is international economic learning. If we are successful in our multilateral negotiations, some of your concerns will be diminished, because markets will open by this multilateral agreement. I am moderately optimistic. Yes, it will take time, but I am not prepared to go to a managed trade and give up on the negotiations to open markets to let the markets work as we believe they will work better.

Mr. GEPHARDT. I wish you well, and we will work with you every step of the way. I do not think I am as optimistic as you, but I think we have to really redouble our efforts, and I hope that we can get a better response from the other side. I hope, too, we can understand this as a two dimensional problem. We have to do things, and they have to do things, and we have to do them simultaneously. I think one of the greatest problems we have is in getting all of us to think about it two dimensionally, and not just in one dimension. Thank you very much for your——

Ambassador HILLS. Thank you.

Mr. GEPHARDT [continuing]. Excellent testimony.

Chairman GIBBONS. Next, Mr. Vander Jagt, then Mr. Pease, and then after Mr. Pease, Mr. Matsui, and then after Mr. Matsui, Mr. Frenzel.

Mr. Vander Jagt.

Mr. VANDER JAGT. Thank you, Mr. Chairman. I just want to take a moment to welcome the Madam Ambassador to the committee, to thank you and commend you for your testimony and your responses, and to let you know we look forward to working very closely with you in the months and years ahead.

Ambassador HILLS. Thank you very much.

Mr. VANDER JAGT. Thank you, Mr. Chairman.

Chairman GIBBONS. Mr. Pease.

Mr. PEASE. Thank you very much, Mr. Chairman.

Madam Ambassador, I am delighted to have you with us. As did other members, I would want to say we all wish you well and expect to give you our fullest cooperation.

I would like to continue the line of questioning begun by my colleague, Mr. Gephardt. There are many concerns that I have about trade and many questions I could ask, but I do not know of any relationship which is more important than that of Japan, so I would like to use my brief time this morning to talk about that.

I was pleased that in your testimony you referred to our trade relations with Japan as one of the three most important bilateral considerations which you are facing. What I would like to ask you about is the rather large bilateral trade surplus that Japan has with the United States. As you know, it has not changed very much in the last year despite the fact that the dollar is worth a lot less now than it was at one point. Let me ask you to look into the future 1, 2, 3, 4, 5 years, and tell me what you think will happen to that trade imbalance between the United States and Japan. Let us assume that USTR vigorously implements the 1988 Trade Act, and it pursues with considerable success market opening initiatives. Let us assume that the Federal deficit comes down significantly and that the GATT round is successful, so that by the end of 1990, we have new provisions covering a lot of these new areas. Assuming all of that, what do you think, realistically, the course will be for the United States/Japanese trade imbalance?

Ambassador **Hills**. My response would be highly speculative. I can tell you what our goals are, and I can tell you that our goals are enhanced by the premises that you put forth. If there is a successful Uruguay round, and we have a successful component dealing with agriculture, our difficulties with Japan and a number of countries could be corrected. If we get market openings and a good dispute mechanism that has clear timeframes so that we can get resolution of disputes in a 15-month period, I think that we would see a greater success with Japan.

Mr. **Pease**. Well——

Ambassador **Hills**. But I cannot tell you what our bilateral deficit with Japan would be, or what our overall trade deficit would be by the end of 1991 or 1992. I think they are governed so much by macroeconomic factors. In point of fact, the trading part is so very much smaller by comparison. But you have postulated, I guess, either a reduced or a zero deficit which tends to suggest a better balance in our macroeconomic factors. Even knowing that, I would certainly have difficulty giving you a number of what either our bilateral deficit with Japan might be or what our multilateral trade deficit would be, or whether it would be in surplus. We certainly would be heartened by all the things you suggest.

Mr. **Pease**. I asked the question because over the last couple of years, the trade policy of the United States has focused a great deal on leveling the playing field, opening up markets, and so on, to give us a better chance to export to other countries. It seems to me that you, in your position, and we in ours, ought not to stop at just saying that if the markets are open, then that is all we are really interested in. I think we need to go beyond that and say that if the markets are open, will the trade surplus that Japan currently has with the United States be eliminated or even reduced. Mr. Gephardt, a minute ago, cited the example of the use of semiconductors by the Japanese auto industry. We are all familiar with the cultural and structural arrangements in Japan that are not formal barriers but, nonetheless, make it difficult to penetrate that market. We are also aware that the Japanese are very efficient producers of a lot of industrial goods. My interest is in trying to look beyond whether the market is going to be open to whether it is a realistic expectation that our trade surplus with Japan will be materially reduced now, 5 years from now, or whenever. Maybe since I have clarified my question I can ask you to comment further.

Ambassador **Hills**. Our goal is to open markets, but our goal is also to eliminate trade distorting measures in all sectors, and trade distorting measures have many definitions. I think that you are talking about a great change at home with no budget deficit in your original question. Are there more things that we can do? Of course there are. To make trade thrive, we are going to need open markets; to reduce trade distorting subsidies, and other measures. But, we are also going to need to be very competitive. We are going to have to be well educated. We are going to have to seek out markets abroad. In the past, we have been able to sell at home more conveniently and at a lower cost. But, if we want to go beyond our own market and reach into distant markets, we are going to have to spend a great deal more time and effort and money doing so.

The chairman of Sony was in to see me the other day and said, "We could do more." He said, "I have a thousand Japanese living in New York, learning to speak English, setting down roots, trying to be super-competitive. How many people do you have in Tokyo who are learning to speak Japanese and who are trying to be super-competitive? You want it to happen overnight." There is a little bit of truth in that. We can do more in terms of export promotion and understanding foreign markets, but we cannot do it unless we have open markets and have our trading partners eliminate trade distorting measures, whether they be in agriculture or manufacturing. A whole lot has to happen, and a whole lot more needs to happen, but it is not going to happen overnight. I do think our approach is driving us in the right direction.

Mr. **Pease**. From what you say, it appears to me that you envision a rather long period before our market opening efforts really pay off in any substantial way, because of other factors such as our lack of competitiveness, our lack of attention to foreign languages, and so on. Let me ask you, when the USTR in a month or so publishes its list of super 301 countries, would you expect that Japan will be on that list?

Ambassador **Hills**. It would be inappropriate for me to speculate as to which country or which practice would be designated until we complete my analysis.

Mr. **Pease**. OK, we will just have to wait and see. On page 2 of your remarks, you talk about trade deficits, and you say that our trade policy by itself cannot solve all of these problems. Much of the deficit stems from macroeconomic factors. You and I have talked about some of those macroeconomic factors as they relate to the United States. Do you envision that the deficit stems also from macroeconomic factors in Japan?

Ambassador **Hills**. The Japanese, traditionally, save more than we do. Many would say that they save too much and we spend too much, but those are macroeconomic factors.

Mr. **Pease**. How about the housing policy in Japan? Do you think it is any business of ours to be talking to the Japanese about consumer demand and the access of consumers to goods from overseas? Obviously, it is hard to come out and say to a nation, "You are saving too much. You ought to spend your money." But, as a matter of fact, one of the problems we have is that there is not that much aggregate demand on the part of the Japanese consumers, and the pie is not very big for us to deal with.

We have been talking about macroeconomic factors in the United States. The question is, do we have a right, in your opinion, to ask the Japanese to look at macroeconomic factors in their society which may contribute to their large trade surplus?

Ambassador **Hills**. Yes, and we have. We have spoken with our other trading partners. We have met regularly with the G-7 nations, we have entered the Plaza agreement, back in September of 1985, I believe, where we tried to have greater coordination of some of these macroeconomic factors. There is a lot that goes into providing for a harmonious trading system. There are some dislocations today. We are working to correct them. At USTR we are focusing primarily on creating market access and removing the source of market distortions but across government, we are talking about many of these macroeconomic factors that do have an impact upon overall trade health.

Mr. PEASE. I am encouraged by your attitude on this issue. I think we need to look at the bigger picture, and like the others in the committee, I will be looking forward to seeing how you succeed while trying to help you succeed. Thank you.

Ambassador HILLS. Thank you very much.

Chairman GIBBONS. Now, Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. Ambassador Hills, I want to thank you for your testimony, and of course, I, as well as the other members, look forward to working with you.

From the testimony and the questions you have heard among the panel, you can see how divided we are. Much of our division is based on our regions. Coming from the State of California, you probably know where my interest lies. I have three areas that I would like to briefly discuss with you. One is telecommunications, which both Mr. Gephardt and Mr. Pease raised. In 1981, as you indicated, the United States and Japan entered an agreement to open markets for telecommunications products. Over the first 3 or 4 years of that agreement, the Japanese did open up their markets to U.S. telecommunications products. In fact, we saw a rise in each of those 3 years. In the last 4 years, however, the amount of products bought by the Japanese has been flat. U.S. products have remained at about 3 percent of the Japanese market since 1984 or 1985. In your report to the Congress last week, you mention South Korea and some of the European countries. You will be refining that report later, and I would imagine you will monitor Japan under track 2 of the agreement. Are we going to be satisfied with the current 3-percent level of sales in Japan of U.S. telecommunications products? Will we see a pattern of trade increase? That is the term of art used in the bill, which requires a pattern of trade increase be expected under the terms of the agreement. I am concerned that we will be satisfied with the current 3-percent level.

Ambassador HILLS. We would like to see greater access to that market. We think that our products and our services are entitled to that respect competitively. Yes, we are monitoring our arrangements with the Japanese very carefully, and we want to see results. We want to have our fair share of the market. We do not want a share that we have not earned competitively, but where we feel that we are competitive, we do not want artificial barriers to exclude us. We are continuing to monitor.

Mr. MATSUI. I take it from your comments that as we refine the list and proceed with the telecommunication section of the omnibus trade bill, we will let the Japanese know that the 3-percent current flat level is not acceptable. Is that of your testimony?

Ambassador HILLS. We would like to see an increase based upon competitive factors, and we are pushing that very hard. I do not think that we have specified a percentage.

Mr. MATSUI. I can understand that a specific percentage is not required under the agreement, and I certainly understand that you would like to see an increase. However, sooner or later, your office must determine if the pattern of trade is adequate under the terms of the 1981 agreement. I realize it may be premature to try to pin you down or pin your office down in terms of what you might conclude, but I should say that I am hopeful, and I think members of this committee are hopeful, that we will not rely upon the 3-percent level as an acceptable pattern of trade under the agreement. I think we would see that as not carrying out the terms of the omnibus trade bill legislation, and I would hope that the Special Trade Representatives Office will feel the same way as we do.

Let me move, if I may, to my second area of concern. I do not doubt that the voluntary restraint agreements, the VRA's, will continue with respect to steel. I think the President made that very clear during the campaign, and I believe there is probably considerable support in both the House and the Senate to continue the VRA's. Being from the State of California, I am concerned because we are large users of steel. At the same time, we are realistic, but I do hope to see the limits raised. Also, and perhaps even more important, I hope the waiver process, which many of my constituents feel is too complex, cumbersome, and time consuming, will be modified to expedite hearings and times to obtain rulings. We in California have a unique problem, I suppose. The cost to us of domestic steel is much higher than it is for some other regions of the country, mainly because of transportation costs. We can, for example, get steel from Mexico at a much lower cost, in terms of transportation, than we can get it from the Midwest or other areas where they produce steel. So, I hope that during your deliberations and in your recommendations to the administration, and during our deliberations, that we make sure that the waiver process is streamlined, and made less complex and certainly less cumbersome. Could you comment on that?

Ambassador **Hills**. Well, as I said earlier, we have a working group looking at steel, and there are, as you say, some strong concerns by the users as there are strong concerns by the producers, and we are analyzing those. Waivers for short supply are given by the Department of Commerce, not by the USTR. I understand that those processes must work efficiently or they impede the competitiveness of our American industry. I am sure that the Secretary of Commerce is well aware of that, just as any application, whether they be export control procedures or waivers for short supply procedures. Those have to be handled as rapidly as possible to enable our users to be as competitive as they possibly can.

Mr. **Matsui**. What is very interesting is that through waiver process, the amount of steel coming into this country is approximately double the amount allowed under the current limitations. Thus, the waiver process is used, as you well know, in rather great numbers, and as a result of that, we should make sure that it makes sense and is reasonable.

Let me move over to the last area, and that is rice. We in California produce a great deal of rice, as does Louisiana. The Japanese have obvious reasons why they would prefer to see their market closed—they even base it on religious grounds, although I sometimes question that. I think one way that they can overcome the religious concerns about rice is by labeling the rice, "This is sacred rice made in Japan," and "This is non-sacred rice made in the United States," and let the consumer decide the decision if they want to buy rice at 10 times the cost just because it is rice made in Japan. It is my hope that through the Uruguay discussions, and even from a bilateral perspective, we could put some emphasis and priority on that area. I am not asking for protection of any of the areas I have discussed. I am just asking that other markets open up—telecommunications and rice. In the area of agriculture, and rice is one area that many of my constituents are very concerned about.

Ambassador Hills. And as you correctly state, if we have the agricultural plank in Uruguay, we will have taken care of the concerns we have with rice and with several of our trading partners in East Asia. So opening up the markets is a vital concern. It is our overall strategy to keep trade open.

Mr. Matsui. I want to thank you very much, and I look forward to working with you.

Ambassador Hills. It would be my pleasure.

Chairman Gibbons. Mr. Frenzel.

Mr. Frenzel. Thank you, Mr. Chairman, and thank you Madam Ambassador for your testimony today. I am sorry that I missed some of it. I take it that you have provided us with this recapitulation of some trade disputes, and I would like to ask you about two of them. If it is not convenient, perhaps you could drop me a note on them if there is too much minutiae. One deals with the problem of couriers in Argentina, and it looks as though from the notation on page 17, that the last time we bothered to talk to anybody was 1985, and I am sure that is not the case. Perhaps you could have somebody talk to me about that later. At that time, the restrictions were lifted, but discriminatory taxes were imposed, and apparently, we have been consulting for the last, perhaps 3½ half years, or 4 years, I guess. I wonder if we are going to come to some conclusion on that, or whether we are going to let it just lie there.

Ambassador Hills. We have been negotiating with the Argentineans, and we are concerned about the heavy taxes that they put on one of our air carriers, DHL, and the harassment DHL apparently encounters at the airports in Argentina.

We have suggested in an interagency analysis that unless we get a correction of this type of abusive conduct—and, apparently, it has been uneven in the past so that I cannot tell you that for 3 years it has been a steady stream of abuse, that we will consider eliminating Express Mail by our Postal Service to Argentina. I have told the Postmaster General, in response to his call upon me, that if we get to that stage, he will have the opportunity to speak before the Economic Policy Council, which I think is appropriate.

So this is a matter under current scrutiny. It does cause us a lot of concern, although the dollar value is relatively small, $2 to $5 million, but it is something that we cannot tolerate. And in this particular instance, we have reached out for a non-trade-related retaliation so that we are not violating our GATT undertakings that we are trying so hard in the Uruguay round to strengthen, extend, and build.

Mr. Frenzel. Thank you. I would like to talk about that a little later.

Ambassador Hills. I will be happy to keep you apprised of the negotiations that are ongoing and the process.

Mr. Frenzel. There is another little matter of Informatics to Brazil, and I cannot seem to put my foot on it at the moment. But in your sheet here, it looks as though that matter is languishing, too, and I wonder if you can bring us up to date on that.

We announced a retaliation list, and then we did not. The last notation on your sheet is, "On June 17th, the USTR announced it did not then propose to pursue retaliation but instead would monitor." Is anything happening on that case?

Ambassador HILLS. Well, I cannot find it on the chart, but I am aware that Informatics and Brazil concerns intellectual property abuse.

You know, we have a tremendous concern with Brazil and a current and major dispute with them now about violation of our intellectual property as it affects pharmaceuticals and fine chemicals. There, in contrast with our action in Argentina, we retaliated with trade-related measures—that is, we raised our tariffs which are bound under GATT. We raised our tariffs by 100 percent to Brazilian imports. I think the trade value is about $39 million. That caused our trading partners in the GATT negotiations to be quite concerned.

We had a difficult analysis at home, but we felt that where there is a theft of our intellectual property, we simply had to take a strong measure. And the fact that the measure seemed to run counter to our GATT obligations, we took into account but we felt that we had no other choice.

With Informatics, we have been negotiating, is my understanding, and what I would like to do is to give you a letter on the current status.

Mr. FRENZEL. That would be fine.

Ambassador HILLS. But I think it is probably affected by the other case.

Mr. FRENZEL. Just have whoever is doing it give us a call. That is good enough.

Madam Ambassador, you have got a more than full plate for the coming few years headed by, I think, the proper emphasis that you are giving on the Uruguay round; because if we are successful there, we succeed in a variety of ways. But there are other items as well, and you have heard about this committee's interest in CBI and, of course, its interest in seeing you carry out the requirements for the Trade Reform Act and keep an eye on the integrated market in Europe.

There are some of us who are looking for a multiyear MFN in Hungary. But one of the things that was talked about before I got here was the steel VRA. I know that you are aware that despite letter written by the President, there are a large number of steel consumers, steel users in the United States who would prefer not to see the VRA's extended.

In addition, there have been problems with the VRA program relating to availability, to emergency supplies and so on, that lead me to believe that even in the worst case—an extension of the VRA's—it should not be extended in anywhere near the same form.

I presume that all of these considerations are being worked over by your agency.

Ambassador HILLS. We have formed a working group to look at these very difficult questions. We will be consulting with you, Mr.

Frenzel, and with other members of the committee. There is a wide divergence, as you know, on this committee with respect to the use of VRA's and what is the proper response to the differing interests of the users and the producers in the steel industry.

The President merely stated that he would prefer an international consensus that eliminated unfair trading practices, which include both the problem of dumping and the problem of state subsidies in steel. And we are exploring what are the various approaches that we might use to have a healthier steel industry for all who are concerned. We would like to work with you on that. We have launched a process. We are aware of the very tight timeframe with the current VRA's expiring on the 29th of September. And we will be working with the private sector as well.

Mr. **Frenzel**. Well, that is encouraging. Obviously, we would like to eliminate subsidies. It is unlikely that we shall do so before September 29, so undoubtedly there will be some sort of interim treatment. But I hope that we do not get into long-term extensions.

It is true that sometimes we can teach someone to walk with a crutch, but some of our industries learn to limp with a crutch. And so I think we have to be very careful about how we design the crutch and how long we lend it to the alleged infirm industry. I hope all of these things will be taken under consideration.

Mr. Chairman, I would just like to finish by saying that I have been impressed with the Ambassador's discussion here today. I would like to say for us on the committee that we are just terribly anxious to have you succeed. We want to work with you, and we appreciate your courtesies today and look forward to sharing future ones with you.

Ambassador **Hills**. Thank you very much.

Chairman **Gibbons**. Well said, Mr. Frenzel.

Now, Mr. Guarini, and then after that Mr. Levin. Mr. Levin is not a member of our subcommittee, but he comes here and is very attentive. And I want him to get an opportunity to talk to you.

Mr. **Guarini**. Madam Ambassador, we all join, of course, in wishing you well in your difficult role that is so vital to our future interest. We all share that common wish for you.

Ambassador **Hills**. Thank you.

Mr. **Guarini**. A lot has been asked about Japan, and let me just ask a short question concerning Japan, with all the bashing that is going on in the past and talk about unfair and other trade practices, et cetera. But, hypothetically, let us suppose that we had a free trade agreement with Japan today. Knowing the cultural differences, knowing the propensity for Japanese, being a monolithic society, to buy their own products, how would we fare? How would we do?

You know, our society, being pluralistic, we buy German cars, English sweaters, Italian leather goods, Dutch beer, and the list goes on and on and on. We are built differently than they are. Would we get a shot at their market, even if they lowered all the barriers and played the game on a level playing ground?

Ambassador **Hills**. My concern, as I expressed it to Mr. Crane, was that I fear that in the negotiation of a free trade agreement with Japan that we would give up too much in the negotiation because we would reduce our tangible barriers, of which we have several, in return for their promising to remove invisible barriers, which are very difficult to monitor.

Mr. GUARINI. But what I am asking, though, is: Would we ever have a shot at their market, knowing how they think and how they are constructed? If they said, look, come in, do everything you want, it is all even-Steven, don't we still get placed at a tremendous disadvantage because of the cultural and mindset differences that exist between our countries traditionally?

Ambassador HILLS. We would have to do a lot more on our part to maximize the opportunity if the invitation were: Come in, all the barriers were reduced.

Mr. GUARINI. It would be a real challenge.

Ambassador HILLS. If all the barriers were reduced—and they are not—I think that American ingenuity could make quite a dent in the Japanese market over time. We would have to learn to speak the language, become well educated, sink down our roots, send people over there, and send products that are of high quality.

Mr. GUARINI. And send the best marketing and advertising people we possibly can get from Madison Avenue.

Ambassador HILLS. All of the above. But I am not prepared to say that we could not do it. We are expanding our trade, as I know you have read, in record amounts. Our export trade went up dramatically last year, and I think it is going to continue to do so because our globe has become so small that trade is really a very big factor in the future.

Mr. GUARINI. Where do you think the dollar is going to go, and how is that going to affect our trade? You know, the Federal Reserve, Dr. Greenspan, has been raising interest rates. Of course, that strengthens the dollar. And when that happens, it creates a lessening of our trade potential.

If our dollar does get stronger—and that seems to be what the Federal Reserve is doing at this time, and short-term interest rates are high, higher traditionally than they have ever been because there is an aberration there, where they are sometimes higher than even our long-term interest rates. Knowing that reality, doesn't that place us at somewhat of a disadvantage today, thinking that a hard potential dollar in our economy, if we do not get the budget straightened out like we should, that our trade is going to keep slipping badly, even though there has been an improvement from 1987 to 1988?

Ambassador HILLS. I never comment on where the dollar is going to be today or tomorrow. It is just outside my province. I think the President is the only one who can talk about the current rate of currency, and I would not want my comment to cause a flutter in any market.

Mr. GUARINI. All right. But it does affect where we are going with trade, just like the Third World debt does.

Ambassador HILLS. Well, you and I both know that the macroeconomic factors of currency exchange and debt, savings, all have a massive impact on trade, and we can stipulate to that.

Mr. GUARINI. But you are our Trade Ambassador, and I am wondering whether or not you have any input into the administration concerning solutions for Third World debt, where we could get a tremendous amount of trade. We have a great large trade with

Third World countries, which are deeply in debt, so that their stability economically would benefit us considerably.

Do you have input into the solution that our Secretary of State and our Secretary of Treasury is trying to find for these Third Worlds, so that we could get into a better trade posture?

Ambassador HILLS. Well, as those Secretaries sit at the Economic Policy Council, those issues can be discussed there. I have had discussions with the Secretary of Treasury on those issues. So, yes. I feel comfortable that I can talk to those issues.

Mr. GUARINI. And they do seek your counsel for these items?

Ambassador HILLS. I seek to discuss the issues that I think have an impact on trade with those who are dealing with the issues that have concern to us.

Mr. GUARINI. All right. Well, I certainly hope that they should ask you for what you think, and that you do have a role in things other than just the trade bill itself. And I am sure that it would benefit our national picture if they had your personal input.

Let me turn to the CBI. In the omnibus trade bill, there is a provision that expressed the economic and political importance of the Caribbean Basin region; that it is not only an important trading partner, they are in our back yard, but also from our national security viewpoint as well. Thanks to the leadership of Chairman Gibbons, we have made substantial progress in trying to put together a bill which we want to introduce shortly. But we have not really heard much from the administration. You have not been very vocal at this time.

I would like to ask you how high and where do you place the CBI on your agenda, and whether or not you feel that special considerations and allowances should be made for textiles and sugar, which is so important to the CBI countries, and whether we should make sacrifices within some of our industries that would give a little better part of the market share to these actually Third World countries or to these Caribbean Basin countries. What is your opinion on this?

Ambassador HILLS. We have been very supportive of the Caribbean Basin Initiative. We think that it has a potential. We would like to see strength and growth in that part of the world, and particularly in our hemisphere. We feel keenly that we should take action, and I am aware of various legislative suggestions that have been made recently. I have not seen the draft· from the summaries, I think that there is much that could be done.

Mr. GUARINI. Do you think that we should rearrange some of the quotas so that they have just a little bit better a share of the market than they have now, that textiles and sugar, more specifically, in your philosophy should have a little bit of additional latitude in any CBI-2 program?

Ambassador HILLS. We are looking at what to do about textiles, and as I commented earlier—I believe to Mr. Jenkins—the East Asian countries have not utilized all of their quotas, and there is a need in the Caribbean Basin. And we are analyzing how that might be dealt with.

Mr. GUARINI. We will be talking more about it in the near future. We appreciate all the help and advice and cooperation you can give Mr. Gibbons and the rest of the Trade Committee in trying to bring into reality a CBI-2 bill in the very, very near future.

Thank you.

Mr. **Crane**. Would you yield for a second, Frank?

Mr. **Guarini**. Yes.

Mr. **Crane**. Frank touched upon another issue, Madam Ambassador, and that is trying to expand the access from Caribbean countries into our markets of Caribbean sugar. And I would only hope that in any such effort that we not neglect some of our other trading partners—and I am thinking specifically of Australia, because they have really been hammered in terms of access to our market on sugar—so that we not confine that exclusively to one country, since we have had all these years of favorable balance of trade with Australia.

Thank you.

Mr. **Guarini**. It is not an easy solution. You have to be the Solomon. But when you are dealing with these small countries, to give them a better handle, even though it be infinitesimal in our marketplace, I do feel that consideration should be given so that they do have a little bit better base of the market.

Thank you.

Ambassador **Hills**. I appreciate your thought.

Chairman **Gibbons**. Mr. Levin, we are glad to have you here. We appreciate your attentiveness, and go right ahead.

Mr. **Levin**. Glad to be here. Thank you, Mr. Chairman.

Welcome. I join our distinguished chairman and Mr. Frenzel and others in welcoming you. I think, by the way, Mr. Frenzel's comments on steel would indicate maybe there is a basis for working this out. There is not, perhaps, such complete polarization as might seem at first blush. So we look forward to the work of your study group.

Let me ask you, one aspect that I do not think has come through very clearly yet, at least at this hearing, is the intensity of your feelings on the trade deficit. You mention in your testimony, your excellent testimony and very comprehensive testimony, that it remains too high. But if you feel like doing so, go a bit further.

I mean, we hear today, based on the report yesterday, that the trade deficit for the last 3 months of 1988, the calendar year, reversed trends of the past in that the GNP increase went down even though consumer spending went up, because of the deterioration in the pattern on the trade deficit. You were asked earlier about specific objectives, and I will not push you on that. But at least give us some sense, if you might, of the intensity, how you right this trade deficit.

There are differing views of it, and I respect the differing views. Some think it is not a major threat, is not a sword hanging over this country, and others would use that imagery. Where are you on the scale?

Ambassador **Hills**. I do not like it.

Mr. **Levin**. How much don't you like it?

Ambassador **Hills**. I do not like it at all, but your question suggests that trade will correct it. And let me suggest that I think that macroeconomic factors have much more to do with the size of our trade deficit than do trading factors.

Last year, we had a shortfall between our spending and our saving, and we had to borrow abroad. Our trading partners have to sell us things to get the dollars to lend to us, and therein is the shortfall.

Now, I do not like that, but it is much more complicated to me than simply saying that it is a sword. It is a grid, and we have to correct those macroeconomic factors if we are going to correct the trade deficit, which is really a symptom of a lot of other misallocations or mislocations within the economy. And I think we can do it, but that is the way I analyze it.

Mr. LEVIN. Well, when you say it is a symptom, I take it you mean in substantial measure it is a symptom; but it is also a cause. In other words, trade factors are a cause, though not the only one, in the deficit picture, right? You do not mean to say that it is all symptomatic?

I mean, the trade components, let me just give you one and see your reaction to it. About a year ago, I was in Wyoming. I was at a mine that brings what becomes soda ash out of the ground. It is natural; it is pure; you cannot argue quality; you cannot argue price. It is as good as, if not better than, the synthetic. It is cheaper than synthetic.

The people who mine it, both management and labor, have been trying to bust through the markets of this world, including the Japanese market, which is very substantial. And it has essentially been level after a breakthrough of 5, 6 years ago. It has been level at more or less 20 percent. They were told a few years ago by a Japanese official that that is kind of it, and it stayed there.

The barriers are not very mysterious. They are not exactly cultural. The terminal and the synthetic manufacturers and the trading companies have intertwining ownership. We had that in our country 100 years ago on a massive basis.

Now, how worked up are we about those barriers? There is not soda ash, there is not that mineral in my district, but it concerns the whole country. What do we say to those people, management and labor?

Ambassador HILLS. Our whole effort at USTR is to pry open markets that are currently closed and to reduce the barriers that prevent your constituents from getting their soda ash or their automobile, or whatever the product is, into the market. And we feel very keenly about it. That is our trade policy. The overall strategic goal is to open markets. We are seeking to achieve our goal through a multilateral effort in the Uruguay round, which will have, if successful, I think a very profound effect on market openings and opportunities for merchants and farmers in this country.

We are also seeking to achieve our goal bilaterally; we are engaging in bilateral efforts to open markets. We have done it with Japan, a country you mentioned. We have opened their market in beef, in citrus, in leather, in footwear, in hard, tense, bilateral negotiations. And when those negotiations do not work, we have acted unilaterally. And we have imposed sanctions, and we have acted in a retaliatory way until we can get attention.

Mr. LEVIN. Well, that has not worked with soda ash, and lots of others. I have been deeply involved in auto parts.

I will not ask you for a quantitative measure, for a number; that is not quite fair. But are you saying that on your watch you are saying to the people who mine soda ash in this country that the Japanese market is going to be substantially opened up?

Ambassador HILLS. That is our effort. That is our effort in the Uruguay round, if we are successful. But trade is consensual. We do not have a policeman or any mechanism, other than by having markets open consensually. We can try to pry them open, and then we can act in a retaliatory way if they do not open or stay open.

But what I would say to the soda ash people is: We are going to try to open the market for you. You for your part are going to have to make an enormous effort to be competitive around the world with your soda ash.

Mr. LEVIN. They have.

Ambassador HILLS. Well——

Mr. LEVIN. They have. I mean——

Ambassador HILLS. I mean, do they have a permanent office in Japan?

Mr. LEVIN. Let me suggest this, then, to just use it as an example. In the next few weeks, send to the committee—the full committee or to Mr. Gibbons and I will receive a copy—your analysis of where that industry is. And in terms of preparing for export, you are absolutely right, and I believe in it fully. We have to be ready. And give me your analysis of where it is, taking into account all the factors, and what you would hope to accomplish within the next few years.

Ambassador HILLS. We will do our best.

Mr. LEVIN. All right. Two quickie questions and I will be done. I do not know, with all the details that you have to go over—have you seen the GAO report on foreign trade zones? Have you had a chance to look at that yet?

Ambassador HILLS. I have not.

Mr. LEVIN. Mr. Gibbons and staff and I have talked about it. I would be interested in any comments that you have, that you might send to the subcommittee Chair.

Lastly, you are going to be entering bilateral discussions in a few weeks with the Canadians, following up the free trade agreement. One of the more controversial areas, of course, was the auto sector, and many of us voted for the free trade agreement but we were disappointed in that particular and important instance.

There was a provision in the discussions for a followup task force in the auto sector, including a rather technical provision, though a vital one, on the standard of preference. Has your staff had a chance yet to go over that with you? Do you know whether the auto sector is going to be on the agenda for those discussions?

Ambassador HILLS. I am very hopeful to announce the panelists that will sit on the auto sector at the March 13 meeting of the Commission.

Mr. LEVIN. Good. Thank you very much, Mr. Chairman. And thank you. We look forward to working with you.

Ambassador HILLS. My pleasure.

Mr. LEVIN. Most useful hearing, Mr. Chairman.

[The following was subsequently received:]

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

The Honorable Sam M. Gibbons
Chairman, Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Gibbons:

During the Trade Policy Oversight Hearing on February 28, Congressman Levin made two requests. First, he asked for an assessment of the U.S. soda ash industry. The U.S. Government, and this office in particular, has actively supported the efforts of our soda ash industry to improve access to foreign markets. I have enclosed a report, "Status of U.S. Soda Ash Industry and U.S. Government Actions," which reviews these efforts.

Second, Congressman Levin asked for comments on the General Accounting Office (GAO) report, Foreign Trade Zones, Program Needs Clarified Criteria. The number of Foreign Trade Zones (FTZs) have tripled, and FTZ subzones have increased tenfold in the past decade. With the increase in numbers there has been a dramatic increase in manufacturing in the FTZs. This shift resulted primarily from Congressional action, namely, the 1950 Boggs amendment that permitted manufacturing in the FTZ, and 1952 legislation that allowed existing manufacturing sites to qualify for FTZ subzone status._ More recently in 1980 and 1982, U.S. Customs further encouraged manufacturing by excluding from dutiable value the cost of domestic inputs such labor and materials, brokerage and transportation fees of goods produced in FTZ subzones and shipped into the United States.

As a result, the original export orientation of FTZs seems now to be overshadowed by the pursuit of tariff reductions on imported parts used for assembly in finished products and ultimate import into the U.S. market. The trend is most pronounced where tariffs are inverted, that is, where tariffs on finished products are lower than tariffs on related inputs. Tariff inversion does not appear to be pervasive. It does occur, however, with respect to tariffs on finished autos (2.5 percent) and on auto parts (4 percent on average). This 1.5 percent tariff differential seemingly has spurred requests for FTZ subzone authorizations by auto assemblers which now account for 36 of the 101 subzones.

Evaluating the effect of the changed FTZ orientation on trade flows is difficult. On the one hand, the FTZs may induce increased imports because the tariff is lower on parts imported for assembly in finished products. On the other hand, imported auto parts account for only 15 percent of total procurement by the auto subzones, so the FTZs appear to spur firms located in the United States to assemble autos rather than to import finished autos. Furthermore, while some foreign firms have set up subzones for auto "transplant" assembly, U.S. firms have taken the lead and account for 84 percent of the subzones.

FTZs and the related Canadian practice of tariff drawbacks and remissions on auto parts were a matter of concern to us and the Canadians during the U.S.-Canada Free Trade Agreement negotiations. The concern was that the FTZ and other tariff drawback practices might result in widespread circumvention of the external tariffs. As a result, it was agreed that goods imported into such zones and then exported to the other country of the agreement would not receive duty remissions but would be subject to the same duties as if the goods had entered the original importing country.

If the practice of setting up FTZs were to proliferate in great number across many industries, there might be grounds for revisiting the issue. At the present time, however, the FTZ Board uses great flexibility in applying the vague criteria "significant public benefits" set forth in the law. The FTZ Board gives careful consideration in granting FTZ authorizations to the impact on trade sensitive products or industries in order to avoid authorizing FTZs that might undermine U.S. trade policy actions or have adverse effects on U.S. industry.

Sincerely

Carla

Carla Hills

cc: The Honorable Phillip M. Crane
    The Honorable Sander M. Levin

CAH:mjd

Status of the U.S. Soda Ash Industry and U.S. Government Actions

The U.S. government has devoted considerable efforts to improving U.S. access to Japan's soda ash market over the past ten years. The U.S. can produce higher quality soda ash at a lower cost than almost any other country due to an abundance of soda ash deposits.

The U.S. cost advantage in soda ash was significant while the dollar was strong and has widened even further as the dollar has weakened against the yen. In the early 1980's, the market price for soda ash was 55-60 yen/ton. By 1988, prices had fallen to 30-35 yen/ton following price discounting by U.S. firms and their Japanese distributors. Japanese producers in turn have lowered their prices to compete with U.S. firms.

During the 1970's, U.S. firms attempted to expand their sales position in Japan. However, a cartel of four Japanese soda ash producers, together with their affiliated trading companies, controlled the Japanese distribution system and were able to prevent U.S. firms from achieving significant increases in sales.

The four Japanese producers agreed to import soda ash jointly through designated trading companies. They established a joint facility, Toko Terminal, dedicated to the handling of imported soda ash. The four companies shared profits and losses according to an agreed upon ratio, agreed on prices of soda ash to consumers and set an annual figure for the volume of imports which would be permitted. Following pressure from the United States, the Japan Fair Trade Commission (JFTC) conducted an investigation and in March 1983 found that a cartel consisting of the four Japanese producers was restricting sales and ordered this activity to cease.

Following the 1983 decision, the United States increased its share of the Japanese soda ash market from approximately 17 percent in 1985-86 to 20 to 22 percent in 1988. The volume of U.S. soda ash sales increased from 210,000 metric tons in 1985 to 267,000 metric tons in 1988. The increase in sales due in part to U.S. exporters' aggressive price reductions and marketing strategies. According to industry estimates U.S. firms would have sold 868 million more metric tons of soda ash in Japan during 1984-88.

In 1988 ANSAC signed an exclusive distribution agreement with Sumitomo Shoji in order to simplify and improve the efficiency of its distribution channels. ANSAC hoped that by consolidating its distribution channels and eliminating its dependence on four Japanese trading entities with close ties to Japanese soda ash producers it would be better able to serve its customers. There has been some resistance to Sumitomo's marketing efforts by

Japanese producers who reportedly have advised customers to refuse to deal with Sumitomo.

In 1983, the Japan Fair Trade Commission (JFTC) directed Japanese soda ash producers not to "unreasonably restrict" utilization of the Toko Terminal facilities by ANSAC. Since that time ANSAC has used the Toko Terminal for storage and distribution, however, it has experienced occasional problems in handling its product. Since 1987 ANSAC has asked to purchase an equity interest in the facility in order to have participate in management of the facility, however, the terminal owner's have refused to consider the proposal.

U.S. Government Actions

The soda ash issue has received considerable attention from both the executive and legislative branches during recent years. Former Ambassador Mansfield and Senator Wallop have both personally raised the soda ash issue with Japanese officials. The USG continues to raise its concerns about any remaining anticompetitive practices in Japan numerous times both informally and during bilateral trade talks (most recently in September 1988). In addition, Justice Department officials have met with JFTC officials in recent months. USTR is currently reviewing the status of this issue in conjunction with meeting the requirements of the Omnibus Trade Act of 1988 and continues to consult with U.S. industry regarding developments in this area.

Chairman GIBBONS. You are about at the end of your travail, and I recognize you have been here 2 hours and 35 minutes. Mr. Guarini has a question, and then I have a couple of questions myself and some observations.

Mr. GUARINI. I know lunch is around the corner for you and for everyone in this room. I just wanted to ask if you would put on the record where we are with our GATT talks concerning the difference between value-added tax nations and our direct income tax Nation that we have, but we cannot deduct at the border, and it gives a considerable advantage.

I know Chairman Gibbons has been very interested in this point on many trips that we have taken, where in the Common Market and other places, if they have a 23 percent value-added tax in Sweden on machinery, that immediately puts us at a total competitive disadvantage.

You had indicated to me at one time that there was some discussions with the GATT round. Could you just let us know and put on the record as to what we might expect or hope for in this GATT round, and what is being accomplished in order to try to develop an equation that would no longer put us at the disadvantage that we have with value-added tax nations.

Ambassador HILLS. That is on the table at GATT. We are trying to remove all barriers, including direct subsidies. We are trying to have taxes, tariffs, subsidies which are trade-distorting reduced. Our end goal is to remove the trade distortions.

[The following was subsequently received:]

Border adjustment of indirect taxes such as the value added tax in many European countries or the sales tax in the United States has been held to be proper in GATT. Such taxes are considered "indirect" as they are paid by the consumer.

Ambassador HILLS. Now, where we are is we do not yet have a framework agreement in the area of agriculture where these various measures have a meaningful impact, and we hope to get, by the time that the technical negotiating committee meets again in Geneva the 5th of April, a meaningful framework agreement so that we can get about negotiating.

Mr. GUARINI. We are pressing this disadvantage that we have to try to eliminate this particular distortion, are we not?

Ambassador HILLS. We are trying to eliminate any trade-distorting measure, of whatever description.

Mr. GUARINI. That is generically true. I grant you that. But in regard to this particular problem that we have, is it possible to quantify the difference that exists between these other competing nations with us? Because we have a different kind of a taxing system, and it does not look like we are ever going to change our tax system in the foreseeable future to go to a value-added tax. Therefore, we are at a point of not being on a fair, competitive basis with these other countries that have a more favorable tax system the way GATT was constructed originally when we had our first round.

I am just wondering whether or not there is any hope that you can give us that there is light there at the end of the tunnel, that we may be able to press a little harder and get a little understanding. I have been in Europe, and I know that they have been very intractable; that they said, look, if this is the way the United States bargained after World War II, then you are stuck with it. That was an attitude that Mr. LeClerc and other people had taken.

I am just wondering whether or not that attitude is changing and whether we can make any ground in this obvious aberration that exists in our tax, value-added situation.

Ambassador HILLS. What we would hope to do is to convert the trade-distorting measures by what we call tariffications. Then we have a common measure and can reduce the overall structure. And that is our goal.

Where we are now is searching for a framework agreement. We do not have some of our trading partners—namely, the European Community—agreeing as to the long-term goal either in terms of time or content. Time, whatever year you pick, so that we have a linear progression down of reducing trade-distorting mechanisms. We have not gotten into the detail of what are those components other than as our analysis.

Mr. GUARINI. So we are still a long ways off from getting anything done.

Ambassador HILLS. We are a very long way off from the actual negotiation of what is a trade-distorting mechanism, how do we have a common language to deal with them, and what we would urge is tariffication and then reduce the whole structure.

Mr. GUARINI. So we are still asking the questions which we have to be able to frame before we can know what the answers are going to be. So I guess we are at point one right now.

Ambassador HILLS. We have done our analysis. Our partners are going to have to do theirs and then agree with us. We will have 20 months following the April meeting to negotiate actually the content of these various 15 agreements.

Mr. GUARINI. Is there much sentiment and understanding, sympathy, in regard to the major countries in trying to eliminate some of these trade distortions? Do you get a common denominator where there is also their feelings and beliefs that distortions should be eliminated? Is that a philosophical strain that is running through the negotiations that you have now?

Ambassador HILLS. I think it is uneven.

Mr. GUARINI. All right. Thank you. Thank you very much.

Chairman GIBBONS. I want to thank you for a very excellent performance here this morning. I hate to classify it as a "performance" because I think there is something artificial about "performance," and yours is not artificial, obviously. The quality of your answers, the directness and the substance has been excellent.

Ambassador HILLS. Thank you very much, Mr. Chairman.

Chairman GIBBONS. Do you have a position on the Bryant amendment? Do you know what I am talking about?

Ambassador HILLS. I do.

Chairman GIBBONS. You do? Would you mind telling me what it is?

Ambassador HILLS. The United States gets a great deal from investment abroad, and we are one of the largest investors in foreign countries that exists. We also gain more abroad than those investing here gain by some multiple.

We are urging upon our partners openness and national treatment with respect to investment because we are such heavy multinational investors ourselves. Thus, we oppose a regulation or a rule or a statute which would treat foreigners investing differently than domestic investors, fearing that other countries might reciprocate and create problems for us.

So, we oppose the Bryant amendment. We think that it also has the potential of discouraging investment at a time when we really need that investment here to make up the shortfall I earlier spoke about between our current spending and our current saving. So on all grounds, we find very little to recommend that particular amendment.

Chairman GIBBONS. As I leave here today, I am going to go over and introduce a bill that will put an embargo upon the importation of semiautomatic weapons. It is a very tightly drawn bill designed just to get at the importation of what I do not think could rightfully be called sporting equipment or anything other than instruments of slaughter. So I do not want you to think I have lost my mind. I believe that while we ought to have free and open and competitive trade, there is a necessity from time to time to bar certain types of imports.

I am not going to ask you to take a position on that, because I know what the President has said. And I watched him and read his lips as he said it. And I would welcome the opportunity to sit down and talk with him on a professional basis about what I know about arms and what I know about rifles and guns and things of that sort.

I would say that, and I would also call to your attention that some time this week I will introduce, on behalf of a great many cosponsors, Caribbean Basin Initiative No. 2. We hope that you all will examine it very closely, and we want to work together with you to try to improve it. We have received some informal help, of course, from the administration, but we realize it is early in the term and you have not had a chance to get squared away on everything that challenges you. I do want to put first and foremost our multinational negotiations. That is my goal and our goal, and I do not want to distract you from that. But we are ready to go, and we will skip public hearings on that at this time. We have had so many public hearings, we about discussed it to death. We will go right straight to markup. We would encourage your participation in that and your staff's participation in that. Perhaps we will have a bill out ready for action soon.

I want to thank you for 2 hours and almost 45 minutes of excellent questioning and statement-making, and I would say that you have done an excellent job. Thank you very much.

Ambassador HILLS. Thank you very much, Mr. Chairman. Thank you, members.

[Whereupon, at 12:44 p.m., the subcommittee was adjourned.]

NATIONAL TRADE POLICY AGENDA

WEDNESDAY, APRIL 26, 1989

House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 1100, Longworth House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

Chairman Gibbons. The subcommittee will come to order.

We are glad to have you here this morning. This is an oversight hearing of the Subcommittee on Trade on national trade policy agenda. On February 28, we received testimony from the U.S. Trade Representative, Ambassador Carla Hills, as the President's trade policy coordinator and chief trade adviser and negotiator.

Today, we will hear from the Secretary of Commerce, Robert Mosbacher. The Department of Commerce plays a major role in the development and administration of trade policy. It implements important trade statutes, such as the antidumping and countervailing duty laws, and administers a number of trade programs to expand our exports overseas and to enhance the competitiveness of our domestic industries.

Mr. Secretary, we welcome you here for your first time before this subcommittee. We are very interested in hearing you perspective on the Nation's trade policy and agenda. Of course, you may proceed any way you wish, but I would like to turn the microphone over to Mr. Archer.

Mr. Archer. Mr. Chairman, I thank you for giving me this privilege to welcome my constituent and my long-time friend, Secretary Bob Mosbacher, to the committee. He brings to the committee a philosophy that is supportive of the best principles of international commercial intercourse and he brings a background of pragmatic business experience which I think will serve this country well in interdicting the unfair trade policies of other countries in the world and being sure that we are guaranteed that our businessmen can play by the same rules of the road in other countries as they play by in this country.

So, I want to personally welcome you, Bob. It is a pleasure to have you on your maiden voyage before the Ways and Means Committee.

Chairman Gibbons. Mr. Secretary, since this is your maiden voyage, let me assure you that your entire statement will be made a part of the record, unless there is some objection, and I don't know of any, so we will make it a part of the record and you may just proceed in any way you wish.

Let me express my appreciation for your invitation to have breakfast with you that morning. The company was delightful and the breakfast was superb and I look forward to many more of those. I am sorry when we bring you down to the Hill we can't feed you as nicely as you did us.

STATEMENT OF HON. ROBERT MOSBACHER, SECRETARY, U.S. DEPARTMENT OF COMMERCE

Secretary **Mosbacher**. That is one of the few perks of my job and I appreciate the opportunity to share it with you.

Mr. Chairman and members of the committee and my old friend, Congressman Archer, I thank you for your comments. Of course, I am delighted to be here and I am honored to be here.

I have provided a formal statement which I ask the committee's leave to have inserted in the record.

Chairman **Gibbons**. That has already been done.

Secretary **Mosbacher**. I thought it might be useful, if I may, to make a few comments which do not fit conveniently into that statement.

Like our Nation and the whole world, the Department of Commerce is entering a period of new relationships, new alliances, even new rules. The European Community, Pacific Rim competition, massive technology changes such as HDTV, superconductor advances, super-speed computer technology, all are challenges which are immediate and of critical importance to the United States. And all of them will cast a very long economic shadow.

The way in which we meet these challenges will determine for our country and our people how the Nation will fare in the next decade and the next century. You in the Congress and we in the executive branch face the massive job of dealing with not one, but a whole web of interrelated issues. We cannot get that job done unless we work together closely in a partnership to achieve what I call our national economic security. A close partnership with the Congress is an imperative.

We have great assets in tackling that endeavor. We have an industrial and business base which is strong and getting stronger. Our expert performance is improving, and our domestic production remains impressive by any standard.

You have already provided some of the tools we need to grow even stronger, and today I offer you my personal assurance that we are using them. Other tools can already be foreseen and, where needed, we will ask for them. This includes tools such as capital gains reform and tax credits for the infusion of business dollars needed to invest in critical research and development.

Other tools, we cannot now predict. As they come into focus, I expect to work with you as partners seeking your help to sharpen our production and marketing edge. Our competitors have already put together a formidable partnership, teaming business, government, finance, and education to strengthen their foreign markets and protect their domestic ones. We must match them in ingenuity, quality, and energy level.

The four nations which account for three-fourths of our trade deficit are pursuing export-led policies and holding down domestic growth and investment. This approach suppresses the market for U.S. products.

But make no mistake. We are fostering a policy of economic security for the United States every bit as critical to our national security as any other part of our national security. Indeed, it is difficult to separate the two. If we fall behind in guaranteeing our economic security and technological advantage, other aspects of our national security could be weakened and eventually could become irrelevant.

Whatever we deal with, whether it is unfair trade practices or the coming of EC 1992, whether it is the protection of intellectual property rights or reasserting our position in high technology, we will be the trustees of our Nation's economic security, its jobs, its standard of living, and its very existence.

Our economic security is, as is our survival, in our hands. Education, labor costs, taxes, trade policy, all have an influence. But we look toward the American work force for production of quality goods and services. This is of paramount importance. We want nothing less than quality when we buy, and we should offer nothing less when we sell.

I am confident that Americans can meet the challenge of producing quality goods. Quality must be the cornerstone of American enterprise. No matter what other action is taken, the door of global competitiveness will not remain open unless our products are first rate.

Assuring economic security is an undertaking which demands cooperation—cooperation between business and government, and between Congress and the administration. I offer you that cooperation today and look forward to working in concert with you during the coming years.

Thank you.

[The statement of Secretary Mosbacher follows:]

Statement of Robert Mosbacher, Secretary, U.S Department of Commerce

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss U.S. trade policy. The Trade Subcommittee has been tireless in its efforts to address the problems confronting our exporters. I appreciate the opportunity to join you in this endeavor. President Bush has declared trade and the competitiveness of U.S. business to be top priorities because they are absolutely vital to the economic well-being of the country. If we are to continue to improve the trade balance, it is going to require the close cooperation of the Executive Branch, Congress and the private sector. I can assure you that I, Ambassador Hills, and the rest of the Cabinet, are determined to do whatever it takes to sustain progress.

America is headed in the right direction. Our economy continues its remarkable expansion, and we are seeing progress on the trade front. In 1988, U.S. exports reached record levels ($322 billion) -- growing 27 percent, while imports expanded at 9 percent. U.S. export performance during the year was responsible for the largest reduction in the trade deficit in history and the highest export growth rate this decade.

But a great deal more can and will be done. For starters, we can begin to pay more attention to how we can better protect the Nation's economic security. To a large degree, our economic security depends on the ability of our companies to compete successfully in the international market as well as at home. We must maintain global technological and production leadership in critical areas, such as aerospace, telecommunications, electronics and advanced materials; if we fail, the negative impact on national security will be obvious. Further, if our economic health is not strong, we will not be able to support our global security obligations and domestic policy objectives. In short, unless we provide for our economic security, it will be difficult to provide for our national security.

Accordingly, I intend to look hard at the implications various policies have on economic security. Where action is called for, I intend to involve Commerce. In this regard --

1. I am pursuing trade policies that provide our businesses with the support they need to make sure they encounter fair trade at home and fair access abroad. This will require close scrutiny of all aspects of EC 1992 and vigorous enforcement of the antidumping and countervailing duty laws;

2. Industry faces unnecessary hurdles in pursuing and commercializing new technologies that are pivotal to our future. I intend to remove them. And I am beginning with HDTV, where the President has asked me to take the lead. Currently, I chair the interagency group to determine what actions we need to take to develop this new technology; and

3. I intend to ensure that intellectual property rights are protected so that our inventors and innovators enjoy the fruits of their labors.

In considering the "economic security" implications of our policies, I do not suggest that it is the business of the government to attempt to pick out industries critical to our economic security and to prop them up as needed to ensure their survival. The Government has no crystal ball that allows it to do that. And even if it did, with the current budget deficit we simply don't have the money in hand to do it.

More fundamentally, we believe that when it comes to exploiting opportunities, we should challenge the private sector, not fund it. For some 200 years, the United States has relied successfully on the vigor and flexibility of our competitive free-enterprise system. If Government concentrates on ensuring an environment for industry that is free of impediments, we can still count on that system to produce the high quality goods and services Americans want and need.

1. TRADE POLICY

For over 40 years, the United States has been the leading proponent of every trade round under the GATT, from the Geneva Round in 1947 to the present. We urged the start of the Uruguay Round and are committed to the conclusion of forward-looking agreements in all fifteen negotiating areas by the end of 1990. History has shown that expanding world trade leads to a more prosperous world. Our commitment to free trade will remain unfailing.

But history has also taught us that free trade must be a two-way street. Whereas the U.S. position of dominance following World War II enabled us to stand at the center of the world trading system as a kind of free-trade buffer, our trade deficits of over $100 billion show that the United States can no longer carry this burden alone.

It was in response to those deficits that Congress enacted the Omnibus Trade and Competitiveness Act last year, handing the new Administration a variety of tools with which to do battle. I intend to forcefully and aggressively use these tools. In no area is this more true than in the antidumping and countervailing duty laws.

The new Trade Act reflects Congress' interest in strengthening the antidumping and countervailing duty laws. Congress has sent a clear message to the international trading community that it endorses the Department's vigorous application of those statutes when unfair trade practices are found and that Congress shares this Administration's commitment to fair trade in the U.S. market.

o For example, the new anticircumvention provisions give us explicit authority to address deliberate attempts by foreign companies to avoid the application of duties to their products without eliminating their unfair practices. In the administration of the antidumping order on forklift trucks from Japan, we are confronted with possible circumvention. Accordingly, we are conducting an investigation under the anticircumvention provisions of the Act for the first time. Recently, we also received and are analyzing other allegations of possible circumvention with respect to portable electric typewriters from Japan and brass sheet and strip from West Germany and South Korea.

The earlier-enacted provisions of the antidumping and countervailing duty law remain vital and effective.

o For example, under the "persistent dumping" provision added by the 1984 amendments, I recently instituted a monitoring program for color television imports from Mexico and Malaysia. If we find that there is sufficient evidence of persistent injurious dumping that causes a serious commercial problem for U.S. industry, the Department may undertake the unusual step of initiating an antidumping investigation on behalf of the industry.

The sheer number of cases filed under these laws since 1980 indicates that the business community believes that the antidumping and countervailing duty laws offer potent relief in combatting unfair trade practices. 240 antidumping and countervailing duty orders and 23 suspension agreements are currently in effect. In addition, many cases were resolved by negotiated trade agreements (principally under the President's Steel Program).

Over the past 12 months, we have completed 88 antidumping and countervailing duty investigations, resulting in 65 affirmative final determinations. These investigations included 44 on antifriction bearings from six European and three Asian countries. We found that bearings exporters in all these countries are dumping, some at high rates, and that the Singapore and Thailand governments are subsidizing their bearings exports to the United States. We have already issued duty orders in the six bearing countervailing duty cases, and we will issue orders in the antidumping cases next month if the International Trade Commission finds that these imports are injuring the U.S. industry.

In addition to selling their goods in the U.S. at fair prices, our trading partners must open their markets to U.S. businesses. The days are gone when countries can sell billions to our market, but then turn around and tell us that they are too weak to permit U.S. computers or insurance or other competitive goods and services to be sold in their markets. I am working with USTR to eliminate barriers to our exports and to ensure greater market access and trade discipline. And I expect from our friends abroad not just promises, but results.

Our trading partners may not like this attitude, but we have a right to demand this fundamental fairness, especially in light of the facts:

- We have one of the most open markets in the world;
- Our trade deficit has pumped hundreds of billions of dollars of growth into the economies of other nations;
- We import more than half of all the manufactured goods the lesser developed countries (LDCs) sell to the industrial world;
- We continue to lead the call for the elimination of trade barriers, market-distorting subsidies, and other impediments to free trade.

There are those who believe that the U.S. trade deficit is basically an internal American problem, caused mainly by our excessive budget deficit and the related problems of excessive consumption and inadequate saving. While these are a large part of the explanation, they are far from the total explanation. Understanding the whole picture requires looking at the surpluses of other countries.

- Deficits with Japan, West Germany, Taiwan, and South Korea total over $86 billion, or three-quarters of the total U.S. trade deficit;
- All four of these countries are in huge surplus globally;
    - Slow domestic growth in West Germany holds down the demand for U.S. products and its $50 billion surplus with Western Europe restrains economic growth in its European neighbors, our largest export market.
    - Japan, Taiwan, and Korea all employ measures to promote export-led growth. Frequently up to one-half of all capacity is marked for export.

Just as the United States must get its budget deficit under control and increase its saving rate, these nations must adopt effective structural reforms to generate more internal growth and help reduce their export dependency.[1]

I am also watching the EC 1992 process closely. The European Community is making great strides in its efforts to create a single internal market by the end of 1992. Over 80 percent of the 300 or so internal market directives have already been proposed. Since this market will be the world's largest, EC 1992 presents us with an opportunity; but if we stand idly by, it may be a missed opportunity. One of my highest priorities is making sure that we respond effectively to the challenges offered in the process.

By and large, we are encouraged by what is happening in Europe today. Achieving this goal of a single, barrier free, internal market is in our strategic and economic interests. A more open and competitive Europe will improve business opportunities and encourage growth, both of which should help U.S. exports.

But this will only happen if the EC 1992 initiatives are drafted and implemented in a non-discriminatory manner, with the process open and transparent to all. In working closely with the business community and other experts, we are generally finding that the vast majority of them are enthusiastic that an open and expanding European market is in the making. But there appear to be some cases, such as in connection with local content requirements and possibly financial services, where the EC's new rules and practices may result in greater difficulties for U.S. companies. Not surprisingly, these restrictions usually stem from a minority of European interests which, for various reasons, are seeking to shield uncompetitive industries.

The United States must remain alert to these potential problems and work to eliminate them. We are prepared to defend our rights if they are ignored.

Staff at Commerce have been hard at work providing information to U.S. companies and analyzing the EC directives.

- Over 6,000 firms have already contacted us for information and assistance.

- We have distributed over 50,000 copies of individual EC directives to American companies.

I have instructed my staff to make sure that we are ready to respond effectively to problems arising in connection with the EC 1992 process such as the standards development process. Issues relating to standards will have a major impact on U.S. manufacturers. The EC's standards development process does not offer enough opportunity for U.S. firms to provide meaningful comments. Some firms are concerned that individual European producers may manipulate the process to develop unique standards favoring their own products.

Improving the standards-setting process, as well as the testing and certification procedures, is in the interest of both European and non-European companies. We are currently exploring channels to gain U.S. participation in EC standards development activities, as well as equitable access for U.S. companies to new EC testing and certification procedures.

I have had discussions with EC officials and European "standards" officials and have been encouraged to find mutual interest in increased openness and transparency. I am optimistic that progress can be made that will benefit both sides. Progress will be more difficult, however, if we enact legislation which runs counter to our "market access" arguments. For example, legislation to impose new restrictions on foreign investment in the United States is sure to send the wrong signal and may prove counterproductive to our many efforts to pry open markets abroad.

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[1] The trade deficit has been reduced from almost $53 billion just two years ago to $34 billion today if trade with Japan, West Germany, Taiwan, and South Korea is excluded.

Another issue affecting our long-term commercial interests concerns the extent to which U.S. firms will be able to participate in EC government-sponsored R&D programs on terms and conditions similar to those we have long afforded European firms in our comparable R&D activities. This issue will become increasingly important as the EC continues to focus more of its R&D activities on government-industry partnerships, particularly in advanced technology areas with commercial potential. We will be on guard against protectionist measures in R&D and any lack of access to the flow of knowledge and technology with our advanced trading partners.

2. EMERGING TECHNOLOGIES

The United States has long relied on its ability to generate and commercialize advanced technologies to bolster its international trade position. Throughout this decade, we have seen an erosion in our trade position in high-tech products. Working with the Congress, I intend to increase the importance of economic and technological issues in our national security and foreign policy deliberations.

Because technology is critical to our future, the President has directed me to lead an interagency effort under the Economic Policy Council to examine the entire range of technology issues. We will develop a comprehensive strategy for improving research, development, technology and innovation in the Nation, identify our policy objectives, and develop policy options for achieving them.

For years the United States was the undisputed leader in electronics, telecommunications, and information processing. In 1981, we enjoyed a trade surplus of $11.3 billion in these products, and as recently as 1985, we ran a surplus of $1.2 billion. In 1987, the surplus had turned into a deficit of $3.0 billion and increased in 1988 to $3.1 billion despite an otherwise strong export performance. It is an understatement to say that we have been challenged.

Our companies have encountered closed markets and government subsidies. At home, foreign companies have used predatory pricing to take unfair advantage in our open markets. Without the earnings gained from a fair share of world markets, our companies cannot afford the R&D needed to develop the next generation of products and maintain our high-tech leadership.

One emerging technology that is certain to be critical in the coming years is "High Definition Television," or HDTV. If it becomes widely accepted, HDTV receiver and VCR equipment sales in the United States alone could surpass $140 billion cumulatively over the next 20 years. Potential applications for HDTV and related technologies include computer workstations, computer-aided design and manufacturing, command-and-control displays, and medical diagnostic equipment, just to name a few. As a mass-produced consumer product, HDTV could drive down the cost of technologies it uses. This, in turn, will speed up their use in many other areas and directly affect other industries such as the semiconductor industry. HDTV could be a major catalyst for technological progress.

If we are going to participate fully in the important new field of advanced television, U.S. industry has many problems to overcome:

- American firms today have only a 12 percent share of the world market for ordinary television sets, and a 0 share in VCRs.

- Our companies face foreign competitors who often enjoy the benefits of heavy support from their governments and protected access to their own domestic markets.

The efficiencies U.S. industry could gain through having a domestic capability in these areas could go far in maintaining our strength and competitiveness in world markets. Dependency by U.S. industry upon our competitors for key components and advanced technologies poses very real risks, both for our future industrial base and our overall security needs.

Accordingly, I am chairing a working group under the Economic Policy Council to determine what the Government's role will be in this field. Certainly, we will need to determine if foreign government support of HDTV poses an unfair competitive advantage. We will also be looking to remove any barriers to U.S. industry's competitiveness in HDTV and other emerging high-technology fields. Then it will be up to industry to assess its situation, chart its course and identify what the Government can do to help it succeed. We are working with the Justice Department to see if changes are needed to make sure that there are not any needless impediments to joint industry activity in technological areas.

There are also steps the Government can take to stimulate research and development throughout the economy. One is to make permanent the research and experimentation (R&E) tax credit to encourage technological innovation through expanded research and development. The current credit, which is equal to 20% of the excess of qualified R&E expenditures over the base amount, expires at the end of 1989. Its protracted temporary status has undercut the credit's value as an incentive for firms to plan their R&E programs on a long-term basis. The Administration is also proposing changes to how the credit is calculated, so as to increase its value to firms and to allow new firms to be able to take advantage of the credit. Finally, to help maintain our leadership position, the Administration is proposing to restore a capital gains tax differential which had existed in U.S. tax law prior to 1987.

In addition, the role of technology in the Nation's economic security must be considered before the government enters into science and technology agreements and other agreements which involve the transfer of technology. I will be vigilant in scrutinizing such agreements to ensure that the U.S. obtains a two-way flow of knowledge and technology. I will also ensure that intellectual property rights are adequately and equitably protected.

3. PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

A third aspect of our economic security relates to the protection of rights in intellectual property. The violation of intellectual property rights spans a wide range of sectors, from apparel and auto parts, to agricultural chemicals and pharmaceuticals, to books, records, motion pictures, T.V. programs, and computer software.

This has become a serious problem for the United States, especially in connection with newly industrialized countries (NICs). Many of the NICs have become highly competitive in certain areas, yet lag behind in providing effective protection for intellectual property. As a result --

- Sales of U.S. goods are displaced when pirated or counterfeited goods are sold, usually at far cheaper prices, in foreign and domestic markets. The International Trade Commission estimates that U.S. business losses due to inadequate protection ranged from $43 billion to $61 billion in 1986 alone. The U.S. software industry, one of the most competitive worldwide, is estimated to have lost $4 billion in 1988 alone.

- Royalty and license fees for U.S. firms are depressed below what they fairly ought to be. Although any estimate of the amount of such loss is speculative, it is likely to be substantial. While we enjoyed a surplus in this area of $6.1 billion in 1987 (the last date for which data are available), we should have done even better.

- U.S. firms are denied the fruits of their labors and are unable to defray the enormous R & D costs incurred in bringing the product to market. This is especially severe for industries where development costs are great but the product itself can be reproduced inexpensively, such as in the case of pharmaceutical products, computer programs, video tapes, and sound recordings.

We are addressing these problems multilaterally in connection with the Uruguay Round, as well as bilaterally. As needed, we have used and will continue to us the Section 301 authority to force the issue. In some instances, efforts have proven successful, as in the case of South Korea, which has improved its patent law, enacted a new copyright law, and joined the Universal Copyright Convention.

As Congress directed under the new "Special 301" provision of the 1988 Trade Act, the Administration is working to identify countries that do not provide adequate and effective protection of intellectual property. Extensive internal reviews of foreign country laws and practices are continuing, as well as consultations with industry. I can assure you that the Administration intends to use this new authority to gain maximum leverage to upgrade the protection of intellectual property worldwide.

CONCLUSION

Mr. Chairman, let me conclude by noting that my first three months at Commerce have made me keenly aware of the complexities of the challenges facing our businesses. While the ability of our businesses to remain competitive ultimately depends on their own efforts, I intend to see that the Government does its share. The United States economic security, no less than its national security, requires a strong and technically advanced industrial base able to adapt to changing conditions. Where the problems encountered by our firms require a Government response, be it removal of barriers to trade overseas or removal of impediments to competitiveness at home, we must be ready to act. And I promise you we will be. Thank you.

Chairman Gibbons. Mr. Secretary, I realize we said at the beginning this is your maiden voyage up here, and if you want to expand on any of your answers after you get back to your office and analyze them, we will hold the record open and let you do that. We may have some questions we would like to submit in writing to you, so that you can answer them at a more leisurely pace. So, we want you to be perfectly relaxed and understand that we are a bunch of your friends. We may not sound like it when we ask the questions, but we are your friends and we want to work with you.

Secretary Mosbacher. Thank you, Mr. Chairman.

Chairman Gibbons. Your role and the role of your Department is just very, very important in this whole trade picture. What is your view as to the role and function of the Department of Commerce in developing executive branch trade policy, particularly in relation to the U.S. Trade Representative?

Secretary Mosbacher. Well, we have an important function in many ways. Our many priorities start with, of course, exports. They include building our exports, and building our technological bases such as HDTV. We must make sure that we stay on the cutting edge in this country while not allowing other countries to close their markets to us, because we believe in free trade. Free trade must be a two-way street.

We also believe that we have two major areas of competition, one being the Pacific Rim, led by Japan, and the other being Europe in 1992. Whereas we see great potential in these areas, we see potential pitfalls, too. We feel that we must safeguard the tools that you have given us and we must enforce these in dealing with foreign countries.

Chairman Gibbons. All right, sir. In your view, is the present agency structure and interagency coordinating mechanism, including the Economic Policy Committee, satisfactory for establishing and implementing national trade policy?

In other words, at this stage in your experience, do you think that the mechanism that the Congress has provided for you and through the years has grown up is appropriate for handling national trade policy?

Secretary Mosbacher. Yes, sir, I do, Mr. Chairman. I think that we have the tools, ranging from the antidumping and countervailing duty laws to the Omnibus Trade Act of 1988. We have the ability, working cooperatively with the Economic Policy Council. I think we have the personnel to do our job.

I find that to date the administration, although we have not completed building all parts of our trade policy, as you will find out during the hearing, we are working towards it, we have had a lot of meetings to develop trade policy and we are working very cooperatively together.

Chairman Gibbons. Fine, sir. In your testimony, you mentioned the importance of responding effectively to the problems arising from Europe 1992. What is the Department's role in that, and do you feel that you are adequately staffed to monitor this operation and to make sure that U.S. interests are protected?

Secretary Mosbacher. We plan to improve our monitoring of EC 1992, although we have been monitoring. We hope to have U.S. and foreign commercial service personnel in Brussels do that. We plan to continue our discussions with the leadership of EC 1992 and I have a meeting planned with Vice President Bangemann over there the end of next month.

We plan also to have continuing meetings, we have already had some, with the people in the standards areas, CEN and CENELEC, the chairmen of both those committees, because one of the areas we need to watch is to make sure that the standards that are set in Europe do not discriminate against American companies.

Chairman GIBBONS. Fine, sir. I look upon Europe 1992 as probably being the finest peaceful thing to happen in Europe in the last 1,000 years, and it has all kinds of opportunities and challenges for us. But I must admit that we are going to have to be very close in monitoring that operation, or we may get hurt in the process. The Europeans say to us that they have no desire to hurt us, and I would expect them to say that. We are good friends and we are the largest trading partners of each other, but it is a very, very complex and bold task that they are undertaking. In some ways, it really makes the formation of the United States look small and puny by comparison, considering all the scar tissue that they have to chop away in order to get unified, but it is amazing to me how much they are doing.

Now, may I make a suggestion to you that perhaps you have already thought of and may be already carrying out, and that is that we really need to mobilize the private sector in our economy to do this job of monitoring. I don't think we could ever have enough Federal employees or perhaps even enough Federal employees that are sensitive to all the problems, unless we can really mobilize the private sector.

I don't know what you are doing in that regard, I don't know, you know, what you are really capable of, but I don't see any way through this process of really monitoring closely Europe 1992, unless we encourage and rely upon our private sector to come forward and help us in that regard.

They are accumulating a lot of information. Of course, we have to filter that information and make sure that it is not just biased, self-serving lobbying, but they are in the position to see these changes and to analyze the impact upon themselves and their own problems much more quickly than we do and we ought to use them to the maximum possible extent to help us with this problem.

Can you tell me what the Department is doing and what your views on this situation are?

Secretary MOSBACHER. Well, Mr. Chairman, we are meeting with the private sector on this constantly. There are already several groups in Brussels, and we are working with another group who will be over there. We have talked to them about it. We have had correspondence with in excess of 6,000 companies regarding EC 1992. We get out a newsletter. And we visit almost on a daily basis with the CEO's from companies, small to large, and we talk to them about monitoring this. They will be doing it with committees, and we are coordinating some of these committees.

Chairman GIBBONS. Fine, and I hope you will do all you can in picking up that information to keep our own staff and Members of Congress in step and in tune with what is happening over there.

There are so many things we are all interested in, we may overlook something, so don't hesitate a moment to bring to our attention any problem that you think perhaps may need our attention.

Secretary MOSBACHER. I would be glad to.

Chairman GIBBONS. Just briefly, before I go to Mr. Archer, may I refer to some of the laws that you are charged with, the antidumping and countervailing duty laws. I talk to a lot of American business people, and one of the complaints that they constantly raise is they can't compete against subsidized competition, and I don't blame them. I don't want them to have to commit to compete against subsidized competition. I want our countervailing duty laws to work quickly and without fear of favor, and work effectively to cut off subsidized products from the market and to discourage those who would subsidize their products into our markets.

So, my question goes to this: It took the previous administration from 1984 to 1988 to flesh out the law we passed in 1984 with rules and regulations. We just passed a massive law last year that is very complex. Can you tell us about how long it is going to take to flesh out that law with rules and regulations? Let that be your first question, how long will it take to set forth the rules and regulations to cover the 1988 act?

Secretary MOSBACHER. Well, we are currently expediting issuance of these regulations. We will give you a very specific timetable in a written answer, Mr. Chairman.

Chairman GIBBONS. Do you think it is possible under the current laws and rules to satisfy most American industry or all of American industry that they do not have to put up with subsidized goods as competition?

Secretary MOSBACHER. I feel strongly we have the tools, and if we do our job of enforcing these regulations, they shouldn't have to put up with dumping or subsidized products. We should be able to shorten the time that we have been talking about. We feel that 9 months would be absolutely the maximum time, and we should be able to shorten it to a much shorter period than that when we can bring these cases to fruition. We will give you a specific written answer.

Chairman GIBBONS. One of the things that I would hope that the Mosbacher administration at the Department of Commerce would be noted for is having shortened the time and diminished the cost of these actions, because I think it is certainly something that needs to be done, Mr. Secretary.

Secretary MOSBACHER. Yes, sir.

Chairman GIBBONS. Now, I want to raise the question of steel now. I am a politician and I recognize that the President in his campaign faced a tough decision and signed a letter that I wish he hadn't signed it but perhaps he wishes he hadn't signed it, either, about steel.

Is there any reason we can't have countervailing duties and antidumping laws that seem to be satisfactory right now to most of the American people, but are not satisfactory to the steel industry? Can we make these antidumping and countervailing duty laws satisfactory to them?

Secretary MOSBACHER. Well, I think we can over a longer period. I think, as you stated, Mr. Chairman, the President over the short term will continue the VRA's. We are looking at how we can balance producer and user needs. We are working on reforming the short supply area to make it more timely and more sensitive to the users' problems.

In the long term, we want to and we will be in a position to go into the countervailing duty and antidumping aspects of it and cover it through normal channels. I do think that we have seen that subsidies are so rampant in many national steel industries that we are going to have to face the reality that they are going to have to change those a lot. In some cases, even if they actually stopped subsidizing, if they spent 10 years bringing an industry up to date by subsidizing it and done it in the last year or two, they still have an advantage.

Chairman GIBBONS. The continuing impact of the subsidy.

Secretary MOSBACHER. Sure.

Chairman GIBBONS. Well, is it your personal view and is it your official view that all American industry should live up to the same law and that we should not just have countervailing and antidumping in one set of industry and then VRA's for another set of industry? I realize that the industry is not perfect, but shouldn't we all live under the same law?

Secretary MOSBACHER. Longer term, I certainly agree with you.

Chairman GIBBONS. All right. Fine. You and I are going to get along real well, then, in the longer term. One of the things the steel industry did a number of years ago was just swamp your agency with a whole lot of cases. I am not going to say that any of them were frivolous, perhaps all of them should have been filed. They were filed, but obviously when you save all your cases and you file them all at one time, there is just not going to be the administrative machinery to handle those cases.

Your Department has been studying this question and you have been studying it for quite some time, as to how to handle this better in the future. Could you report to us today what progress may have been made in handling massive numbers of cases such as we perhaps would have in the steel industry if they went back to the standard antidumping and countervailing duty laws?

Secretary MOSBACHER. Well, I am happy to report to you, Mr. Chairman, that I have gotten the word that we can handle——

Chairman GIBBONS. You what?

Secretary MOSBACHER [continuing]. We will be able to handle the unfair trade cases in steel if the industry decides to file them in greater numbers.

Chairman GIBBONS. All right. That's fine. I applaud that. I have a lot of other questions, but I think, in all fairness to you and to the other members of the committee, I should perhaps submit them for the record and ask you in your own time to answer those questions.

[The questions and responses follow:]

Questions from Chairman Gibbons to Secretary Mosbacher

QUESTION:

The President's famous letter to Senator Heinz proposed seeking an "international consensus" on steel trading practices. We have a GATT Subsidies Code, a GATT Antidumping Code, as well as U.S. domestic laws to impose countervailing and antidumping duties. Why are these international agreements and domestic laws inadequate? What new "international consensus" is necessary?

ANSWER:

The GATT Subsidies Code and Antidumping Code are general codes intended to address trade in all sectors. In the mid-1980's, however, the United States and its steel trading partners realized that special measures had to be taken to address massive market disruptions in steel. These disruptions were primarily a result of widespread foreign export and domestic subsidies, dumping of steel mill products, and tariff and non-tariff barriers to market access. Voluntary restraint agreements (VRAs) were introduced to deal with this trade instability.

The current VRAs will expire on September 30, 1989. However, the same unfair trade practices that gave rise to the current program still exist. The international consensus is intended to remove trade distorting practices in steel consistent with our objectives in the Uruguay Round. It is our intention that the consensus include stronger discipline and a more vigorous enforcement mechanism than is currently provided under existing GATT codes.

The transitional voluntary restraint agreements will be terminated on March 31, 1992. Thereafter, U.S. steel producers, like other sectors of the economy, will rely on U.S. trade laws to remedy foreign trade distorting practices.

QUESTION:

We have heard a lot of complaints about the "short supply" process under the current steel program -- that it doesn't work (especially for small businesses), it's been too slow, complaints of price-gouging, non-delivery of promised supplies, unqualified suppliers that cannot meet customer specifications, etc. etc. In fact, the GAO is about to release very shortly a study which analyzes the operation of the steel short supply program. What changes, if any, is the Department considering to the short supply program to address these many criticisms?

ANSWER:

The Department has long recognized that the short-supply program is an important mechanism to balance the needs of U.S. consumers with those of the steel producers. The criticisms noted have been raised by various U.S. consumers. I reviewed our policies and procedures in this program, and have proposed various changes to the short-supply program for the future voluntary restraint agreements. The changes we are implementing go beyond the changes recommended by the GAO and emphasize the Department's commitment to improving the effectiveness of this program when steel is in "short supply."

The proposed modifications will make the program more transparent to potential requesters. These include providing a standard information package to assist potential petitioners, definitive time periods for processing requests, holding hearings and disclosure meetings when requested, and publishing our decisions in the Federal Register. Regarding timeliness, requests generally will be completed within 30 days of publication of a Federal Register notice announcing a review. However, potential "fast-track" reviews will be completed in 15 days when the U.S. steel industry is operating at rates which indicate that it is fully utilizing its steelmaking capacity, or if the requested product is not made domestically and has been determined to be in short supply for two consecutive years.

To permit the Department to determine accurately the supply/demand relationship for products included in reviews, we will require all interested parties to certify the accuracy of their submissions. This will include information such as potential producers certifying their ability to produce and supply a requested product, or the necessity of certain specifications by a petitioner. If the Department determines that a decision which it has made was based on incorrect information supplied by either party, we will give immediate reconsideration to our decision.

QUESTION:

Chairman Gibbons also asked for a written timetable for implementing regulations resulting from the Omnibus Trade and Competitiveness Act and the U.S.-Canada Free Trade Agreement (FTA) Implementation Act.

ANSWER:

With respect to the 1988 Act regulations, we expect to have interim-final rules out of Commerce by September 30, 1989. The regulations then have to be sent to OMB for review, a process which, based on past experience, takes about one month. Thus, we expect to publish these rules in the Federal Register by October 31, 1989.

With respect to the U.S.-Canada FTA regulations, we published interim-final rules last December. We expect to have final rules out of Commerce by September 30, 1989. These regulations, also, must be reviewed by OMB. Thus, we expect to publish final rules in the Federal Register by October 31, 1989.

QUESTION:

We understand that there has been a fairly high turnover rate among the investigative staff who handle antidumping and countervailing duty investigations. These cases, as you know, are highly complex, technical matters. Once your caseworkers in the investigations and agreements compliance offices master the complexities of these laws, I imagine they become highly marketable. Do you have any ideas on how to attract and maintain quality personnel who are not quickly hired away by the private sector after they learn the ropes of antidumping and countervailing duty cases?

ANSWER:

The Office of Investigations has experienced above average turnover, as do most government agencies which offer valuable technical training. Investigations has, in the past, used several mechanisms to encourage employment longevity among case analysts. A majority of the analysts have advanced degrees, requiring higher salaries and making them more marketable in the private sector. It has become common practice to promote from within whenever possible and we are always alert to up-grading positions to allow for greater upward mobility within the investigative staff. We are also attempting to promote the professional status of the analyst positions by way of professional seminars, office titles reflecting responsibilities, and increased contact with high level International Trade Administration and Commerce Department officials. Finally, we are creating better work conditions by acquiring additional office space and emphasizing environmental factors to increase analysts' feelings of self-worth.

Chairman GIBBONS. Let me go to Mr. Archer now for questions.

Mr. ARCHER. Thank you, Mr. Chairman. I would like to follow up just briefly on your question about the steel industry.

Mr. Secretary, in my opinion, one of the really dangerous aspects of extending the VRA is that it rewards unfair traders and guarantees them access to our market, and they can then increase the profit margin on their products because of this guaranteed access to our market. Is there any kind of mechanism that we can develop that would reward steel industries and steel exporting nations which do not engage in unfair trade practices or dumping? That I understand is less than half of the imports that come into this country on steel, but nevertheless there are some that do not. Is there any way that we can reward the fair traders?

Secretary MOSBACHER. We are working on that, Mr. Archer. As you know, the total amount that comes in is 20 percent, so we are talking about a relatively small percentage, but we still want to do what we can do eliminate that. Of course, what we are looking for in the longer term, as the chairman said, is a level playing field and a free and open market, without any subsidizing and dumping involved.

Mr. ARCHER. Well, the chairman and I, although we are in different parties, share one common concern, and that is we think quotas are a very bad way to handle control of imports into this country. He can speak for himself, but I've heard him talk over the years.

Chairman GIBBONS. I thoroughly agree.

Mr. ARCHER. At one point in time, the Japanese automobile industry, we were told, generated 90 percent of its worldwide profits, including domestic sales of its automobiles, from the United States, because of the VRA agreement. They raised their prices significantly, inasmuch as the supply was restricted, and in the law of supply and demand you restrict the supply and you can get your price up. It seems to me we have got to find a better way to handle these things.

Even when we stopped insisting on a VRA with the Japanese, the proof of the pudding was that they voluntarily continued it on their own, because it enhanced their profits.

Going back to the steel industry, though, in your new effort to find a better mechanism or a more efficient method of handling short supply under new VRA's you have consulted with the steel industry. Have you also consulted with the steel consuming industries in this country, so that the system will be an efficient one?

Secretary MOSBACHER. Yes, I have. I have talked at great length with the Caterpillar group, as well as others, although, of course, the Caterpillar group really is just the front name for a very, very large group of users, and that is the balance we are trying to find. The tight-rope we are walking between making sure that the steel producers are not subjected to dumping and subsidized competitors over the short term, and yet making sure that the users are getting steel quickly enough at reasonable prices.

Mr. ARCHER. So, the issue of price and quality has been involved in that determination, not just volume, is that correct?

Secretary Mosbacher. Well, we are not dealing directly with prices, we are dealing with a generic approach. But prices will be a part of the short supply decision as to what is available.

Mr. Archer. Is quality considered as a part of your formula in that regard?

Secretary Mosbacher. Oh, yes.

Mr. Archer. What about time for deliver?

Secretary Mosbacher. Well, those are the essential factors.

Mr. Archer. Thank you on that. I have got one last question, Mr. Chairman, if you will indulge me. I am curious as to the Bush administration's position on participation of the Soviet Union in international institutions such as GATT. Can you give us any elucidation on that?

Secretary Mosbacher. Well, our East-West policy and particularly that with the Soviet Union is being discussed and will be established interagency and finally by the President himself. At this juncture, we don't have an administration position.

Mr. Archer. I compliment you again on your precise testimony. You are one of the very few witnesses that has appeared before our committee that I can remember in the years I have been on the committee that can give us answers that are shorter in length than the questions. Thank you very much. [Laughter.]

Chairman Gibbons. Mr. Schulze.

Mr. Schulze. Thank you, Mr. Chairman. Thank you, Mr. Secretary. We appreciate your testimony, and we appreciate your appearance here today.

Perhaps, I can enlighten some of our panelists this morning because they had a meeting with the steel consumers this morning, and eight major companies who consume steel testified to the fact that steel prices in the United States of America today are in this range of those prices between 1980 and 1982, and that quality is up and is better than it was in 1980, 1982. Availability is about the same as it was in that time period.

The ITC has found the VRA's have had less than 1 percent impact, and so we feel—there are many of us, Mr. Secretary who feel the future of the United States of America is to have a strong, vibrant, vital steel industry, and that it is a very tough world out there, and that competition will determine price more than cartels as our last 5-year experience shows that that price competition does have an effect.

We are making better steel with fewer people. We are probably either the most or one of the most efficient steel producers in the United States. I might add as a footnote that as of this morning, there were 225 cosponsors in the House of the bill to extend the steel VRA. So, we look forward to the day when the President will sign it, and we can get on with making high quality steel in the United States of America.

Mr. Secretary, would you give me your evaluation of our relationship with the Pacific Rim? You sort of talked about it in your statement of where you see us going. More and more business is being done there, and I know we do a lot of business with Europe, and Europe 1992 is an important issue. We've got super 301 coming down the track. We have to look at the long-range relationship with the Pacific Basin and with Japan.

Just in general give us your thoughts on where we're going.

Secretary MOSBACHER. Well, Mr. Schulze, I think that we have a very, very strong competitor in the Pacific Rim. Of the three major nations, we have a $55 billion trade deficit with Japan, a $15 billion trade deficit with Taiwan, and a $10 billion trade deficit with South Korea.

These three nations are very competitive, very cohesive in their approach, very efficient with very good work ethics. Japan, and I'm sure the others, too, have a particular ability in which they have surpassed us to move from research and development, at which this country is still No. 1 in the world to the factory floor.

I think a lot of that is because our engineering is more specifically zeroed in on the research area, and frankly we don't have the same degree of engineering moving down to building plants. I think we should congratulate them on their capabilities in this area.

Now on the other side of the coin, we have a more open market than anyone else in the world, and certainly a much more open market than these nations. We need to have them open their markets, particularly in the high technology areas such as the super computer areas where we make the best super computer by everyone's standards. We find that Japan is not opening her market to us in these standards.

I think, at this time, we are in a very, very strong and important competition with Japan and these other nations. We cannot underestimate them.

On the other hand, we are and have been—and many in this room, and I'll speak for myself—have been strong competitors with some of our best friends, whether it's in our own industry or in sports. I would like to make sure that when I talk about how strong and how important this competition is with Japan and the other Pacific Rim nations, I don't underestimate it for one moment. There is nothing more important.

But if there is one thing that is more important over all, it is our friendship and our alliance with Japan and these nations, and that I don't want to see anybody take out of context the point I'm trying to make in that we must, both by building our quality and building our competitiveness be more competitive, particularly in the high technology area, and on their side they must open their markets so that they have the same open market we do.

Mr. SCHULZE. Mr. Secretary, I know it's not necessarily within your purview, but I understand that more and more businessmen, are putting larger investments into Japan. But there has also been some resistance on the part of the Japanese to this type of investment.

Do you have any comment on it in that area?

Secretary MOSBACHER. Well, I think the investment area is just another sector of the competitive and the market opening position. Certainly, the Japanese have been buying a great deal and investing a great deal in this country. I think that's very good as long as it does not impinge on our national security in any way.

But, they must also open their markets, both to our investments and to our products.

Mr. SCHULZE. I have to agree, and if I see continued reluctance, I think quite frankly I may even develop some reciprocal legislation that if the Japanese are not going to open their markets to our investors, the time has come for us to close our markets to their investments.

Now, those are very tough words, and I realize that, but this is not a one-way street. It's a two-way street, and we have got to make sure that their avenue is open, as well. If the stories I read in the paper are true, then perhaps we will develop a little reciprocal legislation to try to cure that.

Now, Mr. Secretary, in your response to other questions we talked a lot about monitoring. In the Trade and Tariff Act of 1984, we added a monitoring provision, to the Anti-Dumping Duty Law. In so doing, we intended that Commerce take a more activist role against persistent dumping, and also Commerce to assist domestic producers by sharing the burden of defending against dumped imports from foreign sources.

To my knowledge this provision has been invoked only twice, once with respect to brass sheet and strip and once with respect to television receivers, and the petition for the monitoring of brass was denied, and the one on television was denied in part.

'It seems to me this is one of the tools which you have that without dropping the hammer, we can say that Commerce will monitor, and we'll keep a close watch on these areas, and I just wonder what your thoughts are for the future and whether you hope to expand that monitoring activity a little bit more?

Secretary MOSBACHER. We intend to continue to monitor the television area, in particularly. I know we've watched them coming from Malaysia and from Mexico. This is one of the areas that we will be monitoring very closely, and I can assure you we will enforce these antidumping laws to the fullest degree.

Mr. SCHULZE. I would hope that if it's a matter of personnel you will come to us. Some of us will help you fight for additional personnel. You can broaden that monitoring process so that when an industry is being impacted or when it starts, we can sort of nip it in the bud. We can do some of that monitoring because small, medium-sized companies often do not have the resources to go out and prepare all this information.

So, I think it's an area where we can send a signal to the rest of the world that we are not going to be a dumping ground. That's all that we want to do.

In my opinion, Adam Smith never envisioned a competitive world in which a country's sole aim was to get hard currency, so that it didn't really care about the price of the products, where countries sell specifically in an effort to secure that hard currency.

That is a very unique situation in the world of competition in international trade. I think monitoring would help in this type of case.

Mr. Secretary, you mentioned something about us being more aggressive in exports. We also stand ready to help you in that area. I think that the United States has got to become more aggressive, and I don't mean by the Federal Government, necessarily, forcing exports, but it should encourage exports by jaw-boning and assisting companies in exporting. I know from talking to you that you feel the same way, and I just say to you that this committee does stand ready to assist you in any way along that line.

Now, one other question about the European Community of 1992. You have to be on guard because there are many of us who believe that Europe 1992 is going to be a grand disguise for increased protectionism in Europe. There are many of us who hope that we are proven wrong in that position.

But I would hope that you would come from the position of looking with somewhat a jaundiced eye and say, "Prove it to me. Convince me of your righteousness," and not just accept the fact that someone says, "Oh, we're not going to do anything to hurt you. We're going to keep everything just the way it is." Be a little tough.

We cannot tolerate a fortress Europe. Again, if that evolves, we are going to have to develop reciprocal legislation in this regard. We want to give you the arms, the ammunition, the ability to spread that word and to make sure that we do not have that type of development in Europe 1992.

As I say, I presume you agree with that, and would make sure that your Department follows through along those lines.

Secretary **Mosbacher**. I certainly do. Although, perhaps, I'm a little more optimistic about Europe 1992 being a more open market, I think the only fair approach is for them to allow us to view more openly the laws and standards as they are being set, promulgated. I think is to their benefit as well as ours.

Subject to our being able to observe and have some advanced notice and having an open process, we can make sure that Europe 1992's open market is as good as I hope and believe it will be. We will monitor it closely, I can assure you, sir.

Mr. **Schulze**. Mr. Secretary, one other question.

Do you have any thoughts or would you like to give us any of your thoughts on super 301?

Secretary **Mosbacher**. Well, it's a tool that you gave us that we're studying right now. Since it's an interagency approach—as you know, Ambassador Hills is the prime mover in this area, we've been working very closely with her. The entire USTR's office and Commerce have been working well together, and with the other agencies.

May 1 is the magic date, and by that time we'll have our pieces put together and we'll know what countries and what practices need to be brought to their attention.

Mr. **Schulze**. Thank you, Mr. Secretary.

Chairman **Gibbons**. All right, Mr. Secretary. Let's go to Mr. Pease down here.

Mr. **Pease**. Thank you very much, Mr. Chairman, and Mr. Secretary we are very delighted to have you here.

I want to start off by referring back to an earlier discussion about our relationship with Japan. Some people have said we ought to follow an approach which they characterize as a rules-based approach. Others say we ought to follow what they call a results-based approach in dealing with Japan and its large trade surpluses that you mentioned.

Is your own thinking along the lines of either one of those approaches, or do you have another approach?

Secretary **Mosbacher**. Having spent 90-some odd percent of my life in the private sector where the bottom line was the final law, I personally look at the results. So, although I am against giving them specific targets, except where we've already had agreements, unless we see improvements in their imports from this country, particularly in the high technology areas where we have absolute technological edge—the best premises may be the wrong connotation, but if you call it a supremely well-designed and operating super computer supremacy, we certainly have it in that area.

Unless we see those numbers changing, I think we're going to have to see what other steps we must take.

Mr. **Pease**. Last year we passed the omnibus trade bill which was, essentially, a rules-based approach. You and others in the administration are trying to make sure that our trading partners live up to their responsibilities.

Our trade deficit with Japan has come down slightly, hopefully influenced by a very large drop in the value of the dollar. The value of the dollar started to go up a little bit recently. Some people feel that the trade deficit with Japan is unlikely to drop very much below what it is now.

Let's say that you are reasonably satisfied that the Japanese are adhering by the rules that we established in the Trade Act of last year, and the deficits still hang out there around $55 billion between Japan and the United States.

At that stage, what would be your response, or what would you think the United States ought to do in response?

Secretary **Mosbacher**. Mr. Pease, are you saying if they are complying specifically with each step of the way, I think, then, what's left for us to do is improve our quality and our competitiveness, and that goes back to impoving our educational system.

That's not a short-term answer, I know. Over the long-term, that could be a part of any answer whether it's with Japan or Europe or anywhere else in the world. We must improve our quality, and that means including improving our education and our capabilities.

I could tell you all sorts of stories about companies that come in and say that they need just a moderate step up in technological capability. One company came in and said they had 480 applicants for a job and only 49 of them qualified. It required really just a moderate ability. It didn't require technological training.

So, that's a big part of what we must do. On the other side, we must level the playing field and make sure that they are legally and morally opening their markets to us.

Mr. **Pease**. So, if they are playing essentially by the rules, and have no obvious and apparent trade barriers to our products, I gather you would be willing to tolerate $55 billion deficits for some long time into the future if we were unable to improve our own competitiveness?

Secretary **Mosbacher**. I wouldn't like it, but I don't see any proper alternative other than improving our position competitively in this world.

Mr. **Pease**. I see. Thank you.

Mr. Secretary, in your testimony you say,

> We are fostering a policy of economic security for the United States, every bit as critical as our national security. It's difficult to separate the two if we fall between

in guaranteeing our economic security, other aspects of our national security could be weakened, and eventually could become irrelevant.

In that light, I might ask whether you ever attend National Security Council meetings? I know you're not a formal member, but in light of the tie-in between our economic security and our national security, are you invited to attend NSC meetings?

Secretary MOSBACHER. I have attended them when they had a specific bearing on a subject that I was working in, but I did not on a regular basis.

Mr. PEASE. Would you like to be made an official member of the NSC?

Secretary MOSBACHER. I think that's entirely up to—in my view—entirely up to the President.

Mr. PEASE. That's a very diplomatic response. Perhaps we can put you in the State Department.

Secretary MOSBACHER. But I do feel that there's no doubt that long-term national economic security is just as important as our national military security because they are intertwined. As we go forward through the years, there's hardly a piece of military hardware that is not dependent on the high technology, semiconductors, and memory chips. Of course, if we lose the ability to make those, we're going to lose all the other abilities that go with it.

Mr. PEASE. I understand that you support cooperative research and development ventures among U.S. firms. Has your Department, as yet, identified any promising industries for this kind of approach?

Secretary MOSBACHER. We've been talking about the potential of HDTV. We've been having many, many meetings, some informal interagency meetings, some almost casual meetings, but very important and specific meetings with many industry leaders and association leaders. I believe we're coming closer to finding the keys. I can't say as we have it to give to you today. We see, obviously, that we're going to have to think in terms of consortia. We're going to have to think in terms of some incentives. We know that DARPA, of course, is doing something as part of the Defense Department to help in the research and development for HDTV, and we applaud that. We see that we're going to need some tax incentive in this area as well as the consortia, or possibly the RCA model.

There are many possibilities, and I hope to come back to speak with you again in the not-too-distant future about more specifics.

Mr. PEASE. I see.

Thank you, Mr. Secretary.

Chairman GIBBONS. Mr. Crane.

Mr. CRANE. Thank you, Mr. Chairman, and I welcome you, Mr. Secretary, to the committee.

We had Carla Hills before the subcommittee recently, and I raised a question with her dealing with some legislative initiatives that I dropped in the hopper calling for free-trade agreements with Japan, with Taiwan, ASEAN countries and Korea. Ambassador Hills indicated that it would be difficult to make even tentative moves in the direction of bilateral negotiations, perhaps with the intent of concluding some point after the Uruguay round, because she is terribly understaffed and totally preoccupied with the Uruguay round.

I'm wondering if the Commerce Department could be helpful in at least making some tentative initiatives toward discussing feasibilities, with the idea of consummating such agreements after 1991?

Secretary MOSBACHER. Carla passed me the ball.

Mr. CRANE. No, she didn't pass it to you, Mr. Secretary. I'm asking for your help, though, because of her having her hands full.

Secretary MOSBACHER. I think we have a long way to go before we get to that stage with her Pacific Rim friends. After a long and arduous negotiation period, we concluded the free-trade agreement with our closest neighbor to the north—many, many common ownerships and backgrounds and language.

I think we are making some progress. We still have a long ways to go, too, with Mexico, but I think moving toward the free-trade area it should be a top priority. Of course, there are many problems there as well as the economic differences, some language barrier and some attitudinal changes that I believe are taking place on both sides of the Rio Grande.

I'm optimistic in the long run with Mexico. I think we should continue to discuss this with the Pacific Rim nations. I think we are Pacific power.

Also we need to negotiate with them on many phases of this. Frankly, I see it as a very long-term area. As I talked about earlier, we need to see a lot more market opening—a lot more—before we get to the free trade area.

Mr. CRANE. I have kind of a personal question, and I won't mention personalities, but it deals with an American who has invested substantially in a Japanese firm. In fact, he is the largest single investor in this Japanese firm. He owns 20 percent of the stock, and the Japanese will not let him serve on the board—in this particular firm. I don't know that it is a Government policy, but the Japanese will not let him serve as a member of the company's board of governors.

Now, American firms will extend that, claim, which I think is legitimate, to sit on U.S. boards. I don't know the answer to how you get the Japanese to engage in reciprocity and fairness on something like this. Are you familiar with other situations like the one I just described?

Secretary MOSBACHER. No, I'm not, and I do not have enough background in that case, although I have some vague idea what part of the country he may come from.

We are going to be learning more about it, and if it is relevant, we will be involved. I don't know enough to be able to answer your question further.

Mr. CRANE. Fine.

It just seems to me that fair is fair, and that while this may not be Government policy over there, it may help if responsible officals like yourself communicate to the Japanese Government that they ought to attempt to communicate to companies that reciprocity in this regard would be in the interest of both of our nations.

I have a question regarding steel. We're contemplating the administration's reinstatement of the VRA's. The steel industry had a first quarter this year which was more profitable than any quarter in the last decade. Steel shipments were up about 6 percent, as

I understand it, as compared to a year ago. And while some say with labor negotiations coming up in late summer, they are not confident, necessarily, that they are going to continue to show such a good year.

I'm observing that the focus in this country seems to be almost exclusively on the steel manufacturers rather than steel users. Is the Department, in soliciting input on how to recommend reinstating the VRA's consulting fairly with both consumers of steel products as well as the domestic steel industry?

Secretary MOSBACHER. We have met and will continue to meet with the steel users as well as the steel producers.

We are very conscious of their needs, both in the areas of short supply which of course, takes in price, time and quality as well as other lesser factors.

We will be coming out with new regulations. Assuming we have some continuation of the VRA's, we will have new short-supply regulations which I think will be even more sensitive to the user and the consumer.

Mr. CRANE. And finally, Mr. Secretary, can you give us any background on the administration's recent proposal to make Poland eligible for preferential duty rates under the general system of preferences?

Secretary MOSBACHER. Well, I've just seen the first stages of it, and I think with OPIC and other methods we should try to keep some balance between helping Poland without frankly encouraging their getting into the same sort of deep debt that they did back in the 1970's.

It's encouragement but not totally opening the Treasury door.

Mr. CRANE. Thank you very much, Mr. Secretary.

Chairman GIBBONS. Thank you, Mr. Crane.

Let me, before we go on, pay respects to those members of the full committee who are not members of the subcommittee who have attended this hearing this morning—Mrs. Johnson and Mr. Levin, and Mr. Dorgan. Let me say if you're patient, we will get to you as quickly as we can. I think under the rules I am required to hit my subcommittee members first. Mr. Matsui you are next as being——

Mr. MATSUI. I do not have any questions at this time, Mr. Chairman.

Chairman GIBBONS. All right.

Mr. Downey.

Mr. DOWNEY. Mr. Chairman, thank you, and thank you, Mr. Secretary for coming here and giving us this statement. Congressman Frenzel and I and Senator Roth hosted a conference on Europe 1992 which you were gracious enough to speak at, and I want to thank you personally and publicly for attending that conference.

You said something at the conference that I completely agree with and that made something of a stir in Europe. You said, I believe, that the United States expected a place at the table in some of these EC 1992 deliberations.

I wanted to ask you, based on that, whether or not you are satisfied with what the Europeans have been offering us in the way of input into their deliberations?

Secretary MOSBACHER. I'm not totally satisfied. We are beginning to see the first stages of their bringing us into the process, although, of course it is their decision as to what they do.

I'm totally convinced it would be much better for both parties, both parties being the United States and the European Community, if they let us in at an early stage to help get our thoughts on standards and other areas that could be controversial.

They have started to move in that direction and we look forward to monitoring and negotiating with them move them more quickly and further.

Mr. DOWNEY. I guess I'd be a little happier and satisfied with that answer, if when you have an opportunity to discuss this with them privately you make this point to them—that it probably makes a lot more sense for them to be listening to us internally than to try and face the potential bludgeon of some future Congress in 1993 being dissatisfied with standards or codes or other things like that which wind up being fairly technical matters that could have been resolved earlier.

Secretary MOSBACHER. I will make sure that message gets through to them.

Mr. DOWNEY. Thank you, Mr. Secretary.

One of President Carter's former U.S. National Security Advisers, Mr. Brzezinski, talks about the idea that if Europe 1992 turns out to be Mr. Shultz' worst nightmare, mainly that they are but one huge protectionist block that we should think about aligning ourselves with Pacific Rim nations as some counterbalance to them.

Do you see that as being a viable idea, and is that something that we would want to contemplate?

Secretary MOSBACHER. I don't see that, frankly. It's always a possible scenario but a very unlikely scenario, in my view. I don't see it as a possibility at all.

Mr. DOWNEY. Can I ask you a question? When we were writing the 1988 Trade Act, there was some concern about nonmarket economies and how we could try to determine price for purposes of countervailing duty and antidumping. I believe that a report is owed to the Congress sometime in August.

Now, I don't know if you specifically are aware of this instance. Can you give us some idea of what progress your Department is making with respect to attempting to resolve this problem?

Secretary MOSBACHER. You're absolutely correct, Mr. Downey. It is due in August. We have been making some progress. I have asked some questions. It's a tough problem because when you are dealing with a socialistic, Communistic nation that doesn't have the same pricing mechanism we do. You can't use it to compare what they sell at home versus what they sell abroad. But we're trying to find cost production and other comparables to use.

We will come up with something in August.

Mr. DOWNEY. Thank you, Mr. Secretary.

And lastly, let me associate myself with some of the remarks that you and others have made about the notion of competition.

I'm afraid too often we look at some of our own shortcomings and see them as excuses to blame others, and I think this Nation can produce and out-perform any other nation in the world without having to resort to tariff barriers to protect ourselves from some of the mistakes that we have made, and I would hope that is the message that you continue to spread. It's one that I share, and I suspect most Americans recognize that we are fully capable.

Changes have to be made. Our kids have to go to school longer. They have to be better educated. We have to pay more attention to quality products. Then we have nothing to fear from competition.

Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, sir.

Mr. Gephardt and then Mr. Thomas.

Mr. GEPHARDT. Thank you, Mr. Chairman.

Mr. Secretary, I read your statement and it's a good one. It's balanced, and I think the best part about it is that it doesn't gravitate toward what I think we usually do which is to try to blame all our problems on somebody else or conversely blame all of them on ourselves.

You, in your statement, talked about the trade rules and what other countries have to do to give us access to their markets. You have also talked in a comprehensive way about what we have to do as a country, and what your role will be in that, what our role will be to try to strengthen the competitiveness of our industries, and I truly commend you for that balanced approach because, I think, that's the way it works and that is the way we are going to have to approach it.

I also want to commend you for the work that you did on the FSX. I called you on the phone and talked to you about it, and I'm sure many other members did. I think it's very important you weigh in as you did at the highest levels to try to get the executive branch to review that agreement, and I think that it was very important that that be done.

I think in the days ahead, Don Pease's questions about the National Security Council are, I think, well taken. I'm going to have legislation next week which will put you and the Secretary of the Treasury and the USTR on the National Security Council.

I don't know whether that bill will pass or whether the President would entertain such a suggestion, but I think, as you say in your statement, it is clear that economic security is national security, and that this is not 1946. This is 1989, and that we can no longer assume our economic dominance of the world, and while people in the State Department and Defense Departments still sometimes think the way we did back in 1946, the world has changed and we have changed and we have got to relate these things together. They are inextricably intertwined, and I think you truly understand that.

I would like to ask you a specific question about the FSX, and if you can tell us where that is now and where you think it is likely to go?

Secretary MOSBACHER. Well, I would be glad to tell you where I believe it is. I can't forecast, for like Sam Goldwyn says forecasting is very difficult, particularly if you are forecasting the future.

I can tell you that the administration and the executive branch is totally together on it, and it is now in our Japanese friend's court. We will wait and see how it proceeds from there.

Mr. **Gephardt**. So, you are waiting for a response from the Japanese side, and then the American side will have to figure whether we want to take that proposal or make a counterproposal. Is that where we are?

Secretary **Mosbacher**. That's two of the possibilities, yes, sir.

Mr. **Gephardt**. Do you have any idea about a timeframe in which you think this might occur?

Secretary **Mosbacher**. No, I really don't. I thought I did at one point, but I know the Japanese Government's problems—I wouldn't try to forecast that, either.

Mr. **Gephardt**. I would like to ask you a question about it. This is a hindsight question. It's not particularly useful for what might happen, maybe, but it might give us some guide to how we ought to think about these things in the future.

My perception is that we might have been better advised 3 years ago when this issue first came up to simply respectfully ask the Japanese to buy the airplane from General Dynamics rather than going into a co-development or even a co-production methodology.

Do you have any thoughts about that? I mean this is a product that we make better than anybody else, cheaper than anybody else. We clearly have a lead in the technology. The Japanese have a $60 billion annual trade deficit with us. Their own writers and intellectuals and government people are saying that they have got to get that deficit down. It is in their own self-interest to do that.

Would this not be a case where we could have suggested, and I realize 3 years ago was a long time, but where we could have suggested that they buy it?

Secretary **Mosbacher**. Well, obviously that thought entered my mind, too.

But, as I learned more, I found that the people who were involved at that time were totally, completely, and objectively convinced that that was not an alternative. I think as it is now potentially structured the FSX deals should move forward. There is the potential of not giving up much advantage at all in the technological area for the future competition in a broad way.

So, I feel like it has been pretty well sanitized. Of course, the best of all worlds would have been that, but since then there has been a lot of water under or over the dam. There is an MOU, that with the clarifications, I think would be fine for this country if it goes through pretty much as proposed.

Mr. **Gephardt**. You answered a question previously about super 301 and the determination. As I understand the procedure, we will get a set of findings or facts at the end of this month, and then the determination is made at the end of May, as I remember the procedure.

I hope and assume that you are being asked and consulted and you are involved heavily in this determination. Is that correct?

Secretary **Mosbacher**. Yes, I will be.

Mr. **Gephardt**. I think it is a very important one——

Secretary **Mosbacher**. I am. I should not say I will be. I already am and will be.

Mr. **Gephardt**. Good. I know there is a lot of heavy lobbying going on right now, and I hope that you will be heavily involved in it.

I would like to ask the question about the foreign commercial service. I was in Japan in November. I met with all of your foreign commercial service officers there. I must tell you that I was very impressed with them. I think they are doing a great job under difficult circumstances. They do not have a very good budget for what they need to do in the country, in my view, and I think there are far too few of them to do what needs to be done.

One of the things I said was in Japan was that we got 60,000 troops in Japan. It just may be the wrong army. Maybe if we could put FCS on a few of the uniforms we would do better.

I know we don't have any room in the budget, and I know you are fighting the budget battle with all the rest of us, but I just wonder if there is any way to beef that function up and get more of our people over there, I think they are doing extremely important work in helping our business people enter those markets.

Secretary MOSBACHER. Well, I thank you for the kind word, Mr. Gephardt. I agree with you, and I hope that we can do that. It certainly is a high priority country to beef up our foreign commercial service. We are working toward it. I believe maybe we can. We will let you know how it proceeds, but I appreciate and agree with the suggestion.

Mr. PEASE. Would the gentleman yield?

Mr. GEPHARDT. Yes.

Mr. PEASE. Mr. Secretary, last year in the Trade Act, the provision that I authored specifically requires that your Department have a special arrangement for Japan, South Korea, and Taiwan to beef up the foreign commercial service. Are you aware of what steps have been taken thus far to implement that provision of the Trade Act?

Secretary MOSBACHER. Well, so far we have just talked about it and how to accomplish it within the budget constraints.

But we are looking at it positively. It is the same old problem we all deal with daily here, and that is how do you stretch the dollar?

Mr. LEVIN. I wonder if the gentleman would yield for 30 seconds further.

Let me just ask you directly, then. Do you think that the foreign commercial service staffing is very undernourished?

I had similar experiences to those of Mr. Gephardt, and was very much in support of Mr. Pease's initiative. Forgetting for a moment about budget constraints, do we have an adequate level or very inadequate level or too many?

Secretary MOSBACHER. Well, the last part of the question is easiest to answer. We certainly don't have too many.

Mr. LEVIN. Do we have too few?

Secretary MOSBACHER. We may. We are doing some revamping. We have some excellent people. I would say almost all excellent people. I just happen to have had a long meeting with them just yesterday morning, and I think we need to do a little morale building. We need to do a little redirecting, but they are doing an excellent job.

I would be able to answer that question better after we have started on new initiatives, which is doing a better job of specifically tying together companies—first going to the companies in this country, particularly the middle and smaller sized companies, and talk to them more directly about how they might best sell and best export, and then trying through our officers in these 66 nations to tie the seller and the buyer together. We are going to be doing more directed rifle shot rather than quite as much shotgun shooting on that.

I hope that we can do it with the personnel that are there. So, I will answer that better later.

Mr. **Gephardt**. I just had one more point.

Chairman **Gibbons**. Go right ahead.

Mr. **Gephardt**. If I could just make two respectful suggestions with regard to the FCS, and I want to underline your point that you have good people.

The people in Japan, I think, all speak the language. They are just superb people that are working as hard as they know how. In my humble opinion, they are underbudgeted. It cost $170 to go across town in a taxi today because of the devalued dollar. They need a budget in order to be able to do there what they are trying to do. Somehow we have to figure out how to give them the wherewithal to do it.

I think we need more people. The Japanese probably have triple or quadruple the number of people in the United States that we have in Japan. I understand they have about 150. We got six. I'm told that Hong Kong has 150 FCS agents worldwide. We probably have the same number. So, I think the world has changed and we have changed. We've got to beef that up.

The other respectful suggestion I have is, and I don't want to over emphasize the point because you always have some tensions about staffs and so on. I really think the State Department people, at least in Japan—it may not be that case in other places—but I think there is some unrealistic unnecessary tension that goes on between the Commerce people and the State people.

It goes, I think, back to our history. I think the State Department feels somehow business is grubby, and that has no place in an Embassy. Maybe it was when we could assume economic growth and dominance, but that is no longer the case.

Again, I think our State people and our Defense people have to understand the necessity for us to be able get into these markets and to sell products made in the United States if we are to have a foreign policy and a defense policy that we can be proud of.

I am happy to have you here today. You are doing a good job, and we will work and support your efforts in any way that we can.

Thank you.

Secretary **Mosbacher**. Thank you, Mr. Gephardt.

I might answer your concern about the State Department people not cooperating with the Foreign Commercial Service.

I heard cases when that was quite true in the past. I sense a new attitude that's beginning to permeate where they are coming together. I know the Secretary of State is concerned and wishes to move in that direction, and obviously I do.

Mr. **Gephardt**. Just one quick additional moment. I was at Research Triangle last Friday and talked to the people there about microelectronics and other issues. One of the things they brought up was the possibility of the need for changing the antitrust laws further so there could be joint manufacturing efforts in some areas as well as joint R&D.

I noticed in your testimony you said you are going to be talking with the Justice Department in that area, and I think that's an area that we ought to look at. I know it is fraught with some problems, but I think it's worthy of some consideration. I know at Semetech, they feel they have made some real leaps in technology, but they are not sure that they can even compete with the technology because of the way we are set up for manufacturing vis-a-vis the Japanese companies.

Thank you very much.

Chairman GIBBONS. All right.

Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman.

Thank you, Mr. Secretary for your statement this morning, but also more importantly for the work you have already done as Secretary.

As a followup to the question that the gentleman from Illinois asked, and I have a lot of questions, but we already have a good working relationship, and this is primarily for the record.

I think it is appropriate, as well, to reward the movement in Poland with the GSP preference position, but I also think it is equally important that we examine some other countries, and perhaps provide some minor incentives for them, as well.

The chairman of this subcommittee and the gentleman from Minnesota, Mr. Frenzel, and the gentleman from California, Mr. Lantos have a bill in to provide a 5-year period of most-favored-nation status to the country of Hungary. Hungary currently has MFN status which must be renewed by the administration each year.

It just seems to me that given the position that Hungary has occupied in the forefront of change and the development of market forces in their nonmarket economy, that it would be an appropriate gesture, given the absence of any human rights violations, and their great desire to show that they have been preeminent in the movement toward a free market for the administration to consider the changing status for Hungary from a yearly basis to a 5-year grant.

Do we have a formal position, or what is your feeling about the possibility of doing that, Mr. Secretary?

Secretary MOSBACHER. Mr. Thomas, it is one of the parts of East-West relations that the administration is studying. I think the understanding and feeling, as you expressed, that Hungary is making strides in this direction, but other than that I can only tell you that it will be taken into very serious consideration.

Mr. THOMAS. Our concern is that those who have shown movement recently ought to be rewarded. There ought to be a number of carrots, but there are carrots of different sizes and different shapes, and that we ought not to overlook those who have made long-term progress on a slower basis, but nevertheless are still out front.

I understand the desire to show movement in Poland. It is a front-page question. The point I guess I'm making is that Hungary is not a front-page question, but they ought to be rewarded as well.

Thank you very much for your testimony.

Chairman GIBBONS. Mr. Guarini.

Mr. GUARINI. Thank you, Mr. Chairman.

Mr. Secretary, we are very pleased that you are able to join us and give us the benefit of your thinking and planning on an economic strategy for the United States that is so vital and critical for the future because I think that we were taken advantage of the fact that we were the only victor nation that was undestroyed industrially—World War II. As a result, we have perhaps been bristling our laurels more than we should, and consequently lost some of that competitive edge and managerial skills that we were famous for that got us to be the leading industrial nation in the world.

You mentioned economic security, and I don't think there could be a stronger word in our political dictionary right now because we realized how important it is to be ably economically secure, and we know how our dollar has fallen and how the Japanese have sort of taken over a great deal of leadership, together with West Germany. Now we have the threat of the common market.

In 1992, it's going to change the way business is done globally, and we have got to fit into this pattern if we're to have the highest standard of living amongst our people.

I'm wondering in regard to the quality of our goods. When Japan was in that position and had taken a position of producing quality goods, that's when they really merged as a great trading nation in the world, and I think we can borrow from that. We've always been a quality country, but what more can Government do to assure quality as the key underpinning of our trading?

In other words, how can we assure that we will direct our industries to hiring better quality? Should they take a role or should it just be left to industry itself?

Secretary MOSBACHER. Well, I think industry is going to have to lead in this to a great extent. And I think you have got to go back through the educational system in which, of course, the Government has a role and this President feels very strongly about.

You have passed the Malcolm Baldrige Quality Award, which is a very good beginning. The application, which I'm sure you've seen, just reading it makes one more knowledgeable about quality. Applying for it brings up the standard of quality of any company that does so apply.

And I think what we need to do is disseminate both that award and similar awards to more and more businesses in this country.

Mr. GUARINI. So the Government should do everything it can to encourage.

Secretary MOSBACHER. Yes.

Mr. GUARINI. Give an incentive for quality merchandise to come out of our manufacturing plants in our country.

Secretary MOSBACHER. Yes. And this is frankly in the early stages. There may be even some sort of tax incentive for people who can come up with the highest quality goods.

Mr. GUARINI. That might be hard to work out.

Secretary MOSBACHER. Whatever we can, we need to do to improve our quality, not only for exporting, but——

Mr. GUARINI. Internal consumption.

Secretary MOSBACHER. Internally, and replacing many things that we import that frankly we could and should be making in this country of equal or superior quality.

Mr. GUARINI. Are we doing enough to help our companies and our businesses export their product? Is there more that we could do in leadership to encourage and make it easier, particularly for small businesses to export?

Secretary MOSBACHER. Well, we are taking the first steps of that in the United States and Foreign Commercial Service. Perhaps next time I come back, I can give you more specifics and other things we might be able to do. We certainly do need to encourage small- and middle-size business to export, make them more aware of it.

You remember this country has never thought about exports over the last several decades. And now it's a world market and we have to think that way.

Mr. GUARINI. It's a new thought process for us.

Secretary MOSBACHER. Yes.

Mr. GUARINI. Because our markets were here at home.

In regard to 1992, Europe is going to be more competitive than ever.

Is there anything we should do now in planning a strategy for 1992 because we are going to be in keener competition in the years down the road with the European markets as they strengthen themselves internally? Should we sit by and watch it happen and be attendant to the developments, or are there positive steps that we could take in planning the strategy for the future?

Secretary MOSBACHER. I think there are some positive steps we can do. I think we can inform and educate our firms or companies in this country. They need not only to realize that there is a big market of 320 million people in Europe, but how they can penetrate that market and how they can, either singly or in groups, for the smaller ones need to have some sort of representation over there, have the opportunity to sell over there. We in Commerce are doing some of this, and we will do more.

Mr. GUARINI. Should we take an active hand in the politics of shaping the Common Market or should we step out and sit on the sidelines and let it happen? Should we be an activist in the politics of the Common Market, in your estimation?

Secretary MOSBACHER. I think we should be as much an activist as we possibly can be.

Mr. GUARINI. Without getting their ire?

Secretary MOSBACHER. Yes, they will let us know if we're being too activist.

Mr. GUARINI. Let me lastly ask you, on HDTV, which you mentioned in your remarks, what do you think we could do to catch up with Japan because this is going to be a huge world market, not only in television but everything else that's ancillary to it?

We've got Government-private partnership, as Mr. Gephardt mentioned, with Semetech. Antitrust laws should have to be reexamined. There are areas there.

But do we have a policy or a plan as to how the Government could get our TV industry back to be competitive with the Japanese, HDTV?

Secretary Mosbacher. Well, we are meeting with industry on a continuing basis, and frankly I think it has to be an industry led plan where the Government works cooperatively with industry, because unless they are ready, willing, and able to do it under certain conditions and circumstances, it won't happen no matter what the Government does.

So we are working with them. By and large, the industry is quite enthusiastic about it, not in total unanimity, but the majority are. And over the next 30 to 60 days, no longer than 90 certainly, I think we will be coming together with a more specific plan where industry and Government work together on this.

Mr. Guarini. Should we set up something like Semetech? Has that been a good experience? Has that been successful that would be useful in the television area?

Secretary Mosbacher. Although I don't want to rule out anything at this stage, I think it has to be something that industry is very comfortable with and obviously the taxpayers are comfortable with too, because we don't want something that doesn't get a cost-benefit ratio.

Mr. Guarini. Right. Thank you, Mr. Secretary, and we wish you well in your future endeavors.

Chairman Gibbons. Mr. Secretary, I know you know the next man that we are about to introduce here and so I am not going to take any time introducing you to him. Mr. Rostenkowski has been a member of this Trade Subcommittee as long as there has been a Trade Subcommittee, and the fact that he sits to my right hasn't got a cotton picking thing to do about how decisions are made around here. [Laughter.]

But I am proud to try to turn the floor over to him.

Chairman Rostenkowski. Well, thank you, Mr. Chairman.

I find comfort, Mr. Secretary, in the fact that I was a subcommittee chairman once, and I expected the chairman of the committee to support the subcommittee, and I've done that consistently. And because of my friend, Sam Gibbons' leadership in trade, we've done some good things in my opinion for the country.

The committee over this last several years, Mr. Secretary, has worked hard to enact the omnibus trade bill and the Canada Free Trade Agreement and, in my judgment, we were successful in avoiding the temptation to move toward protectionism but, instead, provided the administration with the tools necessary to dismantle foreign trade barriers.

One of the central themes in that legislation was that the United States had to speak with one voice in the formulation and implementation of the U.S. trade policy, if we were to be successful. And that certainly requires close cooperation within the administration and between various agencies involved in trade and, I think, close consultation between the administration and the Congress, as well as the active involvement of business in the business community, in the formulation of our positions.

We are faced with a number of challenges in the years ahead, and I am sure that this committee, and under the subcommittee leadership of Chairman Sam Gibbons, we will be watching very closely the developments in the Uruguay round of multilateral trade negotiations, the implementation of EC 1992. And we had better keep both eyes open there, Mr. Secretary, and the domestic implementation of the trade bill in the United States-Canada FTA.

We are also anxiously awaiting the announcement of the administration's position on steel VRA's.

Other members of the committee and I look forward to working with you, our U.S. Trade Representative, Carla Hills, and to ensure that the tools which we have provided you are used and that we can effectively accomplish U.S. trade policy objectives.

I think that, in your service, you will find that we are working with you. And I think that some of the things that were accomplished, even when there were some Doubting Thomases at 1600 Pennsylvania Avenue, are giant steps forward.

The world is no longer as large as it was. We are almost minutes away, and certainly in the telecommunications that we are experiencing, we are all close neighbors. So you have got a tremendous responsibility. And I want you to know that as far as the Committee on Ways and Means, both sides of the aisle, we are here willing to help you. And I wish you well in your endeavor.

Secretary MOSBACHER. Thank you, Chairman Rostenkowski. I look forward to working with you, and totally agree that, as far as I am concerned, it's not in any manner, shape or form a partisan issue, and look forward to working not only on both sides of the aisle, but both ends of Pennsylvania Avenue because we have a real problem and an opportunity here to get back the competitive edge.

Chairman ROSTENKOWSKI. Thank you, Mr. Chairman.

Chairman GIBBONS. Thank you, Mr. Chairman.

Mrs. Johnson.

Mrs. JOHNSON. Thank you very much, Mr. Chairman. I won't take but a couple of minutes.

You have been here a long time, Mr. Secretary. Welcome.

First of all, I just want to say how strongly I agree with all of the comments of the committee members and yourself in regard to the importance of America being competitive. If we can't put high quality goods out there at a reasonable price, we have only ourselves to blame and, in the end, we can't succeed.

But I am also pleased to hear you giving such support to the issue of market opening. And in that regard I am very concerned about the date of April 30 and the issue of compliance with the telecommunications agreement with Japan.

I see this agreement as of particular significance because it was negotiated specifically to provide market access in an area of new products, a sector of new products, products where we are competitive in quality and cost. Change in this sector will not involve enormous political and social implications for Japan. I mean, in other words, we are not facing the kind of problems in telecommunications as in agricultural products. The implications for Japan are not the same.

And so that agreement was written with a very clear intent of assuring that national treatment would be provided to American companies, that there be a certain regulatory transparency and so on and so forth. So it is of the utmost concern to me that, in fact, we can buy Japanese cellular phones down in the House Stationery

Store, and American cellular phones do not have the same opportunity in the Japanese market.

Now, we are supposed to make a decision about whether or not there has been compliance with that MOSS agreement by April 30. According to the new trade law, noncompliance is treated differently than it used to be treated and carries with it some automatic actions by the American Government. I just wonder if you can give me any indication of, where your thinking is on the compliance issue?

I know you had a team over there recently. Did they come back with the problem solved? Do you see us able to resolve the specific issues between the United States and Japan with respect to compliance with the telecommunications agreement before the end of this week and, if not, are we going to be willing in this instance to stand up to treating Japanese products in our market exactly as our products are treated in their market. Since we do allow many other foreign and domestic cellular phones to be sold in our market, it is not if it wouldn't be a competitive market if we provided reciprocal market access in this sector.

I look to April 30 as having enormous implications for all of us, and particularly for people like me who looked to these agreements to provide us genuinely with a new opportunity, both to provide access and to look at compliance.

I just wonder how you see this whole thing of compliance with the telecommunications agreement and what your Department anticipates.

Secretary **Mosbacher**. Mrs. Johnson, you have very clearly stated the problem we have. As of 7 o'clock yesterday morning, we were talking about it. It was much later this morning, it was about 7:25. And we have been talking about it daily. We have been in contact with other agencies daily, particularly the USTR. We are very concerned about it.

I can't say that—although she did a superb job over there—that Maureen Smith came back with the problem solved, much as she would have liked to, because it takes two to solve a problem. Both sides have to be willing.

We are very, very concerned. We are looking into both the legal and spiritual aspects of it as specific items, and the spirit of both the MAMO and MOS positions in 1377. We have not finished our studies, but they will be finished in a timely fashion and we will keep you informed.

Mrs. **Johnson**. Thank you, Mr. Secretary. I do consider this key to the whole issue of market opening. Thank you.

Secretary **Mosbacher**. Thank you.

Mrs. **Johnson**. Thank you, Mr. Chairman.

Chairman **Gibbons**. Thank you.

Mr. Secretary, you've done a fine job. You survived your first baptism of fire and water, and we look forward to seeing you in the future.

After we have had a chance to evaluate the testimony that has been received here, we may give some written questions to you.

Thank you very much.

Secretary **Mosbacher**. Thank you, Mr. Chairman.

[Whereupon, at 11:56 a.m., the hearing was concluded.]

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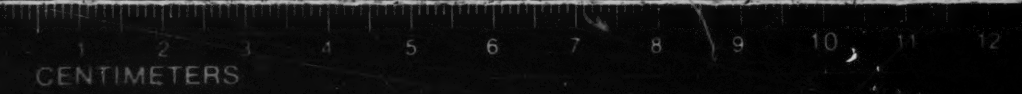

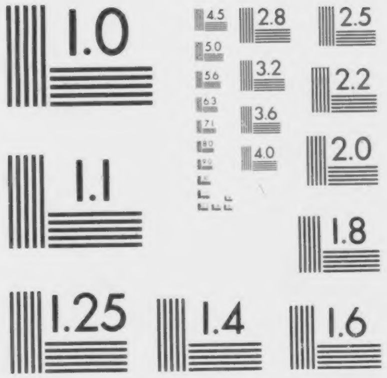

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